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Full year results
for year ended 31 March 2012

15 May 2012

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Agenda

• Introduction – 2012 overview	Peter Rogers
• Financial review	Bill Tame
• Looking forward	Peter Rogers
• Questions	Peter Rogers Bill Tame Archie Bethel John Davies Kevin Thomas

2012 – an excellent year

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Our objective is to develop from our position as the UK's leading engineering support services company and grow in both the UK and overseas, so delivering superior and sustainable returns for our shareholders

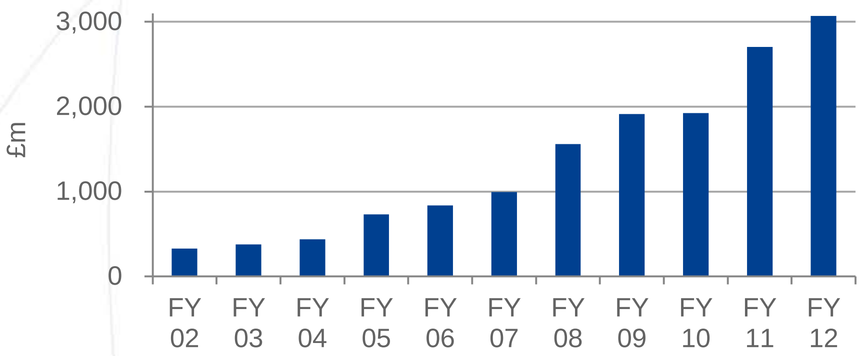
- 2012 results reflect successful delivery of strategy
  - c 6% organic revenue growth
  - 15% organic operating profit growth
  - operating margin increased to 10.7%
- Agreement reached for sale of non-core US defence operations
- c £2bn recent contract wins
  - aligned with strategy
  - strengthen business model
  - support future growth plans
- Ideally positioned in current economic environment
  - reflected in 35% growth in bid pipeline during the year
- Order book increased to £13bn
  - supporting positive outlook

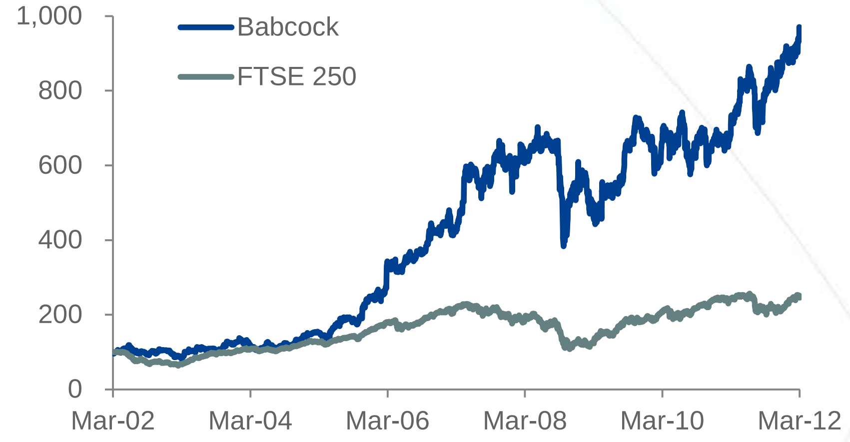
Our strategy

- Market leading positions
- Customer focused and long-term relationships
- Integrated engineering and technical expertise

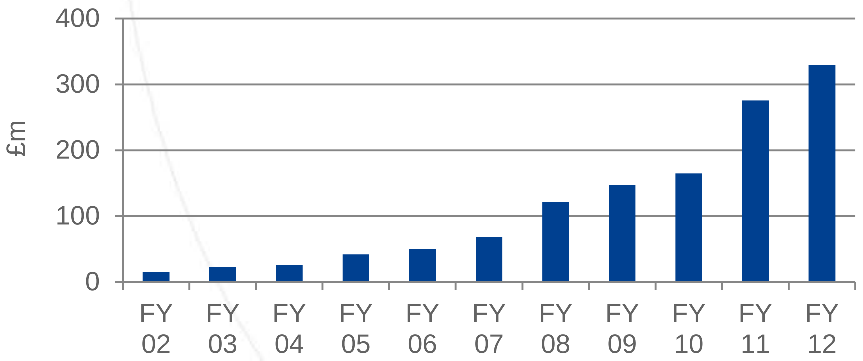
Superior and sustainable returns
10 years of growth

Revenue





Operating profit



	TSR 10 years	TSR 5 years	TSR 1 Year
Babcock	**+ 866%**	**+ 126%**	**+ 32%**
FTSE 250	+ 148%	+ 14%	+ 1.7%

Financial review

Bill Tame

Group Finance Director

US disposal

- Deal signed
  - gross proceeds £61m
  - awaiting regulatory clearance
- Discontinued business line at 31 March 2012
  - goodwill impairment £58.5m
- FY12 operating profit includes £2.5m release of provision for deferred consideration no longer required
- EPS impact
  - FY12 - 2.86p
  - FY13E - 2.00p
- £200m removed from order book
- £2.3bn removed from bid pipeline
  - low margin, deeply competitive

	FY11 (9m)	FY 12
Revenue £m	191.3	202.1
Operating profit £m	11.5	14.7

Group underlying	FY 11	FY 12		
	Including discontinued	Consensus	Including discontinued	Continuing only
Revenue	£2.9bn	£3.4bn	£3.3bn	£3.1bn
Operating profit	£286.9m	£336.8m	£343.7m	£329.0m
Operating margin	9.9%	10.0%	10.5%	10.7%
PBT	£228.2m	£283.0m	£288.8m	£274.1m
EPS	55.03p	62.0p	64.33p	61.47p

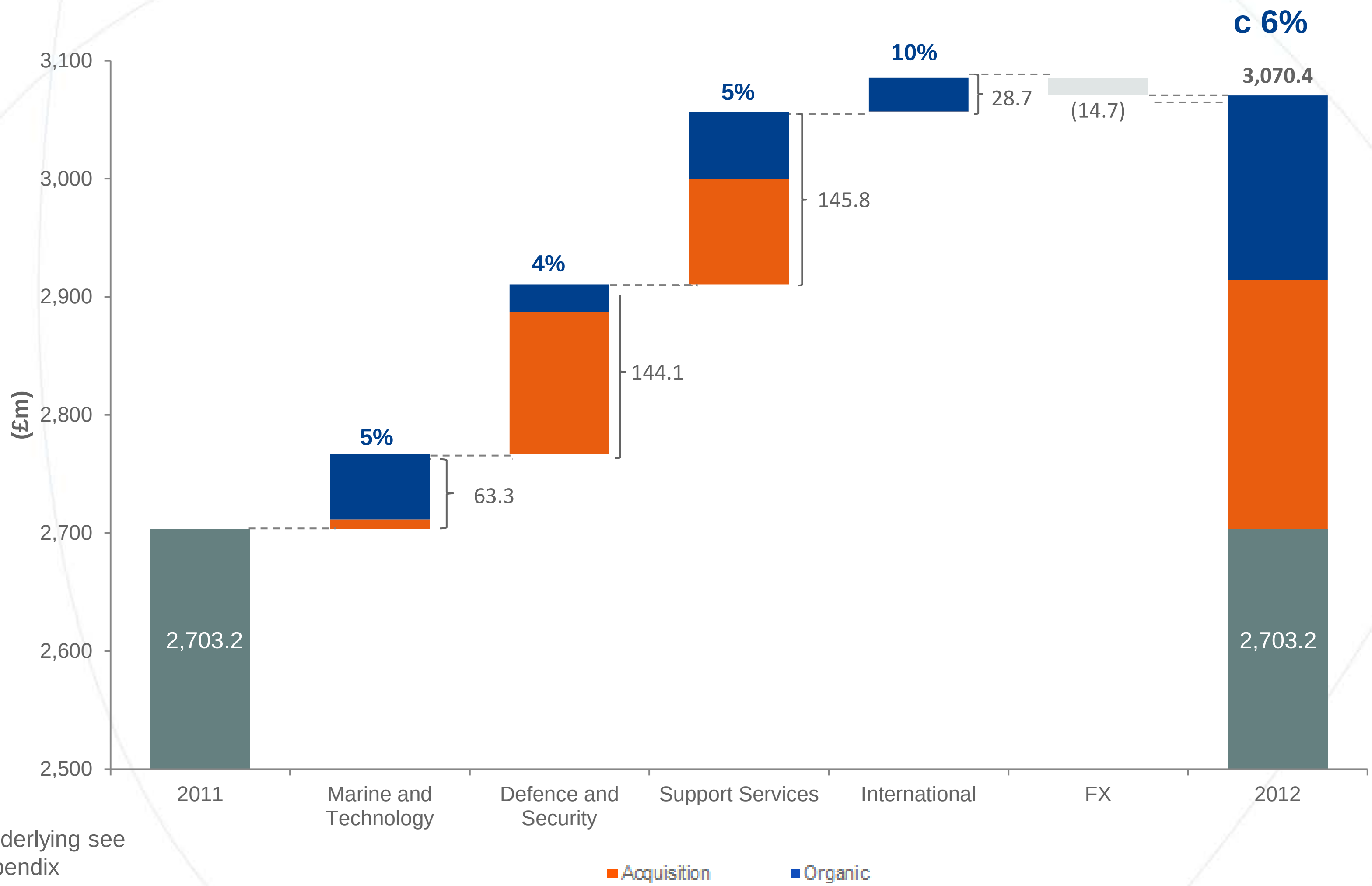
Income statement* - continuing operations

- Strong organic revenue and operating profit growth
  - revenue c 6%
  - operating profit 15%
- Improved operating margin
  - synergy benefits
  - contract performance
- Group finance cost significantly reduced
  - JV interest increased in line with PFI financing model
- Effective tax rate 19%
- EPS up 17% and proposed dividend increased by 17% (cover = 2.8 times)

	FY12 £m	FY11 £m	Change %
Revenue	**3070.4**	**2,703.2**	+ 14%
Operating profit	**329.0**	**275.4**	+ 19%
Operating margin	***10.7%***	***10.2%***	
Net finance cost			
group	**(35.5)**	**(50.4)**	
JV	**(19.4)**	**(8.3)**	
	(54.9)	**(58.7)**	
Profit before tax	**274.1**	**216.7**	+ 26%
Tax	**(50.4)**	**(43.4)**	
Effective rate	***19%***	***20.5%***	
Profit after tax	**223.7**	**173.3**	+ 29%
EPS	**61.47**	**52.5p**	+ 17%
Proposed full year dividend	**22.7**	**19.4 p**	+ 17%

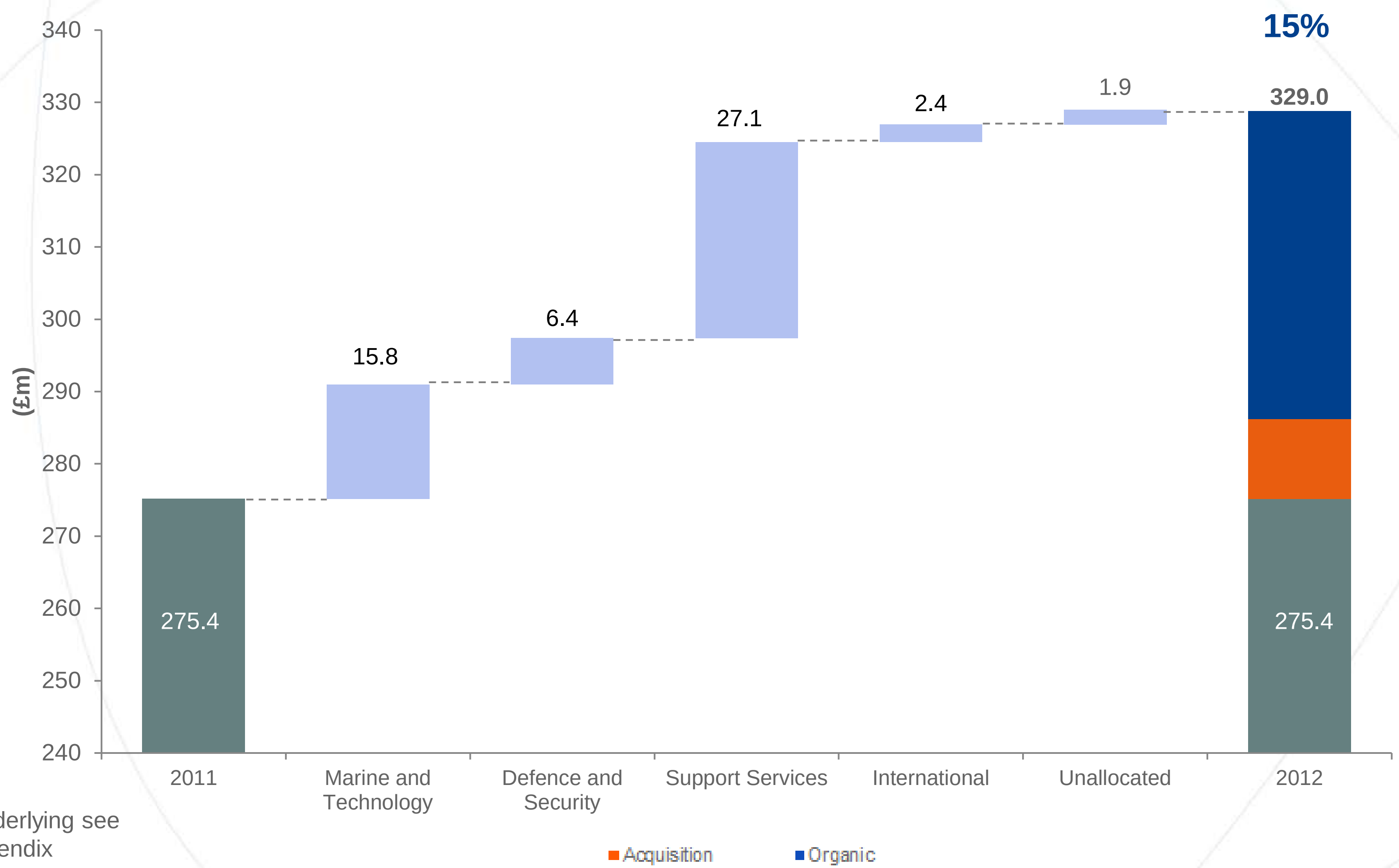
* underlying – see Appendix 1

Bridging analysis
Revenue* – continuing operations



*underlying see appendix

Bridging analysis
Operating profit* - continuing operations



*underlying see appendix

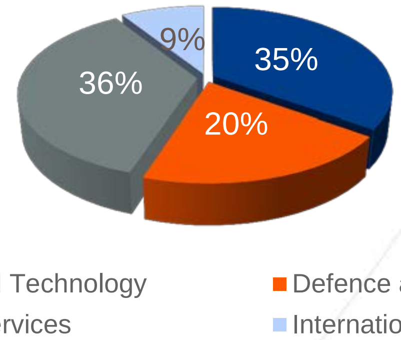
Marine and Technology

- Revenue growth mid-single digit as expected
  - organic growth 5.7%
- Aircraft carrier programme delivered further growth
  - revenue £156m against £118m last year
- Submarine programme activity level high
  - completion of HMS Vigilant LOP(R)
  - Astute class into service support
- International activities continued to grow in Canada, Australia, Spain and South Korea
  - now represents over 10% of divisional revenue
- Margins improved to 12.5% - same as half year
  - international growth key contributor
  - milestone gain-share on completion of HMS Vigilant
  - delivery of significant cost saving outperformance under the ToBA

Outlook for FY13
  - some acceleration in revenue growth as overseas and UK commercial opportunities convert
  - margins broadly similar

	FY12 £m	FY11 £m	Change %
Revenue	1,084.7	1,019.5	+ 6%
Operating profit	135.1	119.3	+ 13%
Operating margin	12.5%	11.7%	

Revenue by division

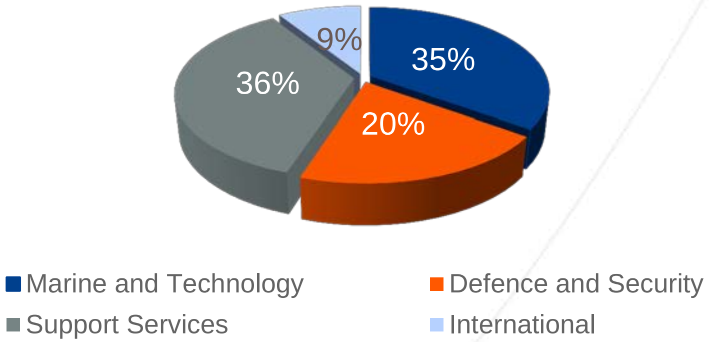


Defence and Security

- 4% organic revenue growth
  - scope increases and build programme drive strong performance in RSME
  - FSTA first aircraft in to service (ITS) milestone achieved
- Margins reduced to 13% as expected following completion of MOB build programmes in MFTS and FSTA
- Extensions successfully secured
  - White fleet service and vehicle provider contracts – c £400m for 4 years
  - FOAP naval training – c £90m over 6 years
  - REME Bordon and Arborfield – c £40m for 2 years
- Outlook for FY13
  - revenue lower ahead of major contract awards expected in FY14
    - FSTA JV £40m revenue step down following first ITS milestone in FY12
    - £20m step down as RSME JV build phase completed in FY12
  - margin to improve to mid-teens from synergy benefits and FSTA operational activities

	FY12 £m	FY11 £m	Change %
Revenue	613.3	469.2	+ 31%
Operating profit	79.6	73.2	+ 9%
Operating margin	13.0%	15.6%	

Revenue by division

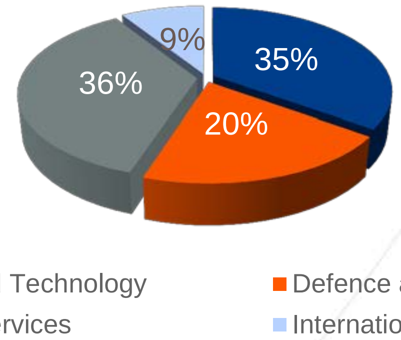


Support Services

- Organic growth rate 5.4%
  - up from 2% in H1 as expected
  - Nuclear, Infrastructure and Rail showed strong growth
- Further step-up in margin to 9.8% - 8.4% last year and 9.2% in H1
  - strong contract performance in Nuclear and Training
  - cost synergies contributing strongly
- Excellent year for contract wins
  - Dounreay site decommissioning
  - London Fire Brigade training
  - Devon Schools improvement
  - Sellafield Silo Maintenance Facility and Design Alliance
- Outlook for FY13
  - recent contract wins expected to drive
    - top line into double digit organic growth
    - some margin dilution from contract start-up phases

	FY12 £m	FY11 £m	Change %
Revenue	1,092.4	946.6	+ 15%
Operating profit	106.7	79.6	+ 34%
Operating margin	9.8%	8.4%	

Revenue by division

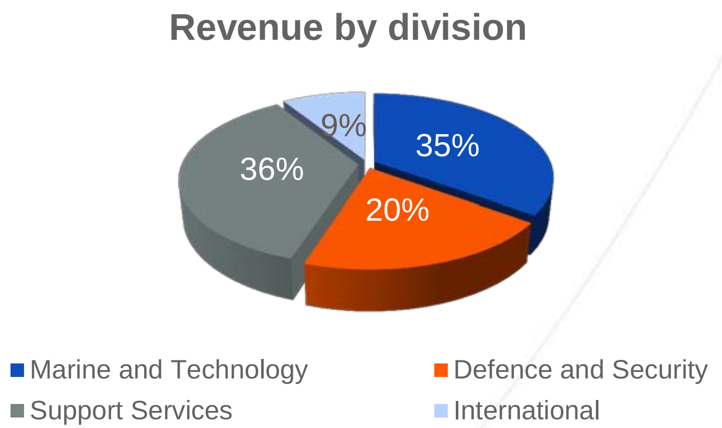


International – continuing operations

- 10% revenue increase excluding effect of foreign exchange
  - SA equipment up 20% as market continued to improve
  - power market soft and revenue flat as Eskom continued outage deferral
- Margin stable at c 7%
  - SA improving year on year as volumes increase
  - Oman contract margin slightly weaker
- Outlook for FY13
  - possible mid-teens revenue growth
  - margins remain stable
  - equipment market holding up well
  - DAF truck sales promising
  - power likely to recover strongly

	FY12* £m	FY11* £m	Change %
Revenue	280.0	267.9	+ 5%
Operating profit	19.3	18.1	+ 7%
Operating margin	6.9%	6.8%	

* Continuing revenue



Acquisition of VT

- Cost synergies on track
- Achieved to date
  - £40m annualised run rate
  - being delivered slightly ahead of schedule
  - £50m run rate target by mid 2013
- Upside potential of c £3m from procurement and IT projects
- Cumulative cost of realisation at March 2012 was £24m
  - £12.8m charged in FY12
  - total out-turn costs now estimated at c £40m by March 2013

Cash flow

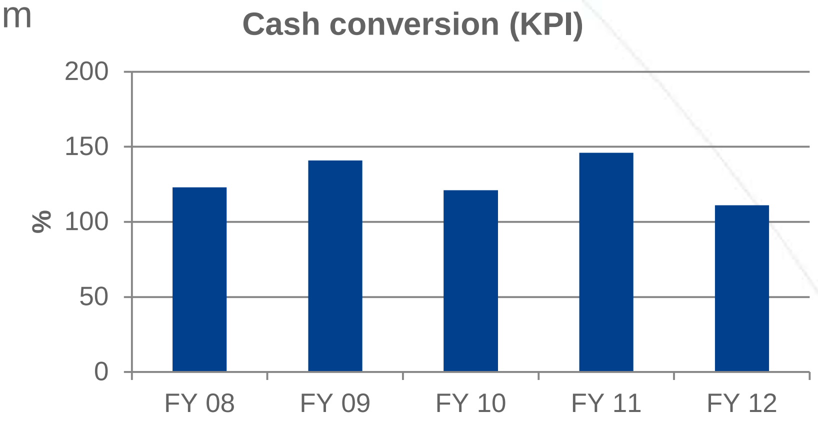
- Cash conversion 111%
  - maintained > 100% track record
- Working capital movement
  - unwind of prepayments
  - acceleration of pension contributions
  - increase in activity levels
- Capital expenditure
  - some slippage in expenditure on IT programme during 2012
- Cash interest excludes JV interest paid
- Outlook for FY13
  - capital expenditure likely to be at a similar level to 2012
  - some further working capital unwind
  - US disposal
  - investment in PFI equity £30m

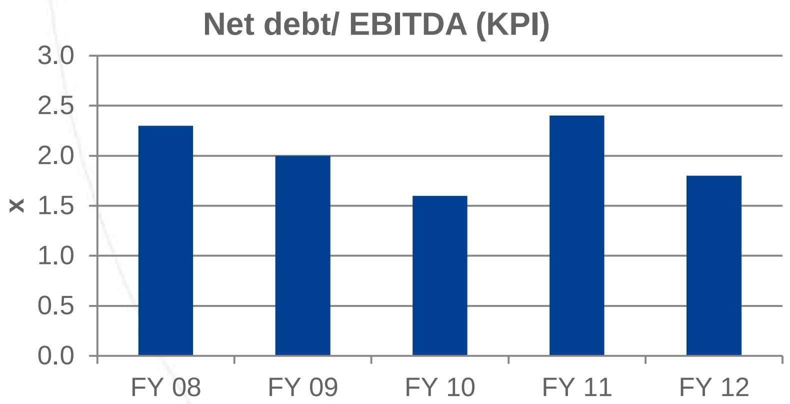
	FY12	FY11
Operating profit	290.2	250.1
Non-cash items/ exceptionals	47.1	31.6
Working capital	(76.6)	26.8
Cash from operations	260.7	308.5
*Cash conversion**	*111%*	*146%*
Net capital expenditure	(46.0)	(33.2)
Interest	(37.1)	(50.0)
Tax	(28.0)	(19.3)
Free cash flow	149.6	206.0
Acquisitions/disposals	4.2	(574.3)
Dividends received from JV	6.6	-
Dividends	(73.5)	(51.5)
Other	1.0	(6.9)
Net cash flow	87.9	(426.7)

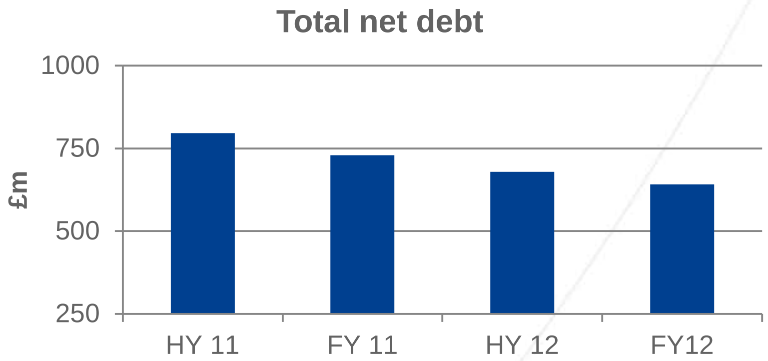
*adjusted for discontinued operations

Deleveraging

- Total net debt closed at £641.1m down from £729m
  - c £890m pro forma at 31.03.10
- Net debt/ EBITDA 1.8 times
- Strong cash conversion at 111%







Pensions summary

- Deficit increased to £265.9m
  - up from £225m FY11 (H1 12 - £317m)
  - bond yields down to 4.85% from 5.6%
  - inflation down to 2.15% from 2.75%

- Investment and hedging strategy is paying off both at balance sheet and income statement level
  - less volatility in the deficit
  - interest components move more in tandem

- IAS19 valuations do not affect cash contributions

Balance sheet	FY12 £m	FY11 £m
Assets	2782.7	2,579.9
Liabilities	(3048.6)	(2,805.0)
Deficit	(265.9)	(225.1)

Income statement	FY12 £m	FY11 £m
Service cost	(44.5)	(46.0)
Expected return on assets	172.1	152.6
Interest on obligations	(145.7)	(135.6)
Net charge to operating profit	(18.1)	(29.0)
Total annual cash contributions*	94.3	67.5**

* before prepayments
**9 months for VT funds

Pro-forma impact of IAS19 revision

- Effective FY14
- No balance sheet impact
- No cash impact
  - a permanent timing difference between profit and cash
- Pro forma FY12 eps reduction 7.8p
- Investment strategy, benefit management and regular cash contributions should reduce impact by start date

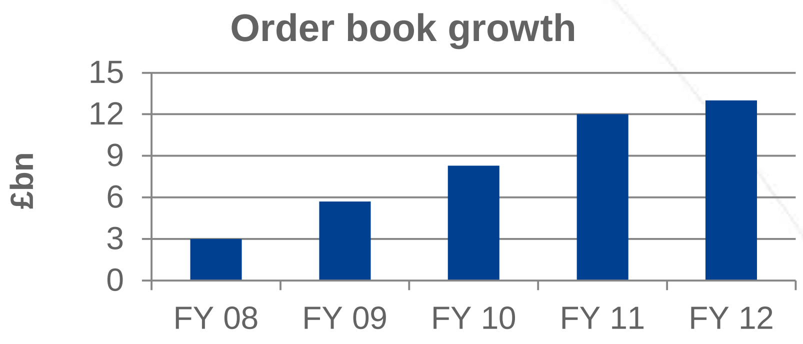
Income statement	FY12				FY13		
	Current	New	Δ		Current	New	Δ
Current service cost	44	44	Nil		46	46	Nil
Interest on obligation	146				137		
Return on investments based on portfolio	(172)				(168)		
Interest on net deficit		13				13	
Net finance charge	(26)	13	39		(31)	13	44
Net pension charge	18	57	39		15	59	44
Tax	(4)	(15)			(3)	(14)	
Post tax charge	14	42	28		12	45	33
Earnings per share			(7.8)				(9.2)

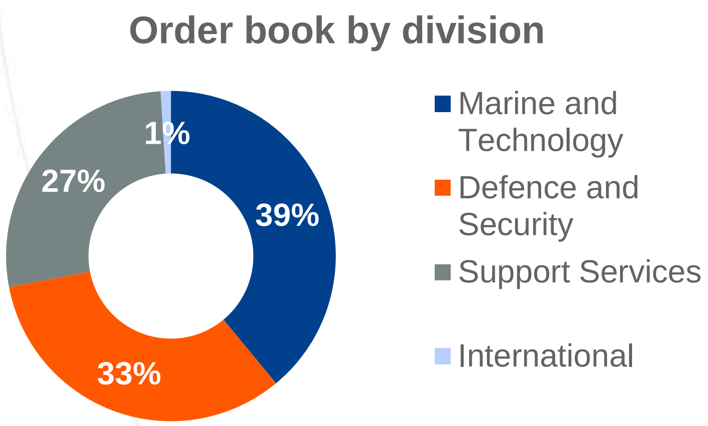
Order book – continuing operations

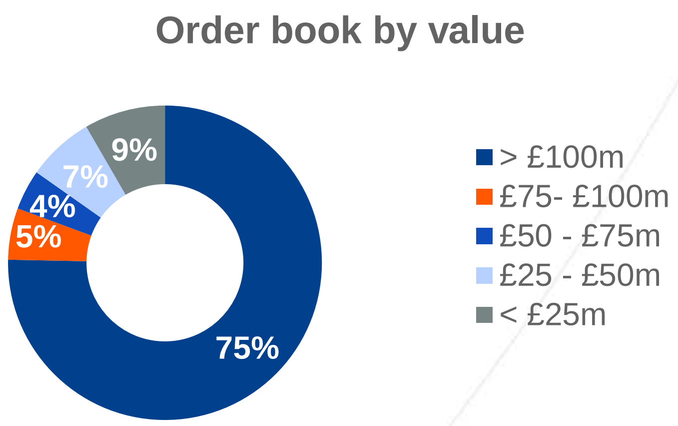
- Order book £13bn up from £12bn at 27.03.12 trading statement

- 70% revenue coverage FY13
  - 45% coverage for FY14
  - excludes Marine and Technology forward programmes

- Regular flow of “book and burn” contracts into order book







Continuing to deliver

- Strong organic growth in revenue and earnings
- Strong cash flow and debt reduction
- Order book growth
- A focused portfolio
- For FY13
  - some enhancement to margin
  - high single digit organic revenue growth

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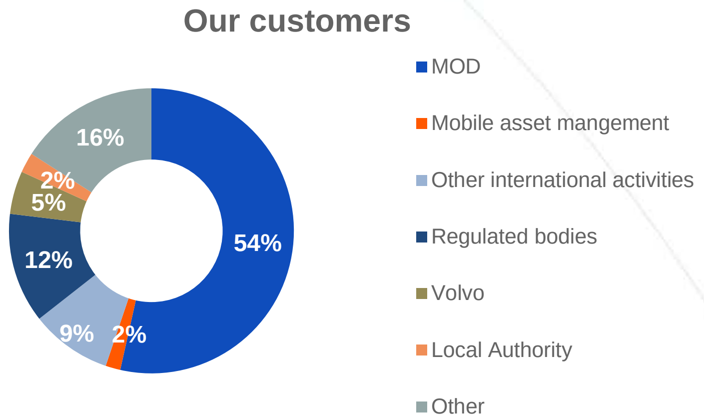
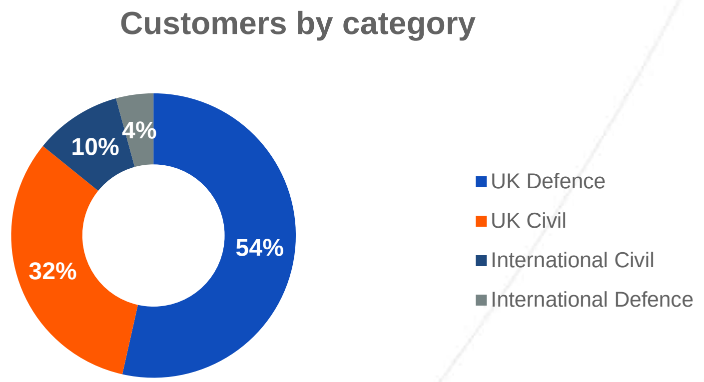
Looking forward

Peter Rogers
Chief Executive

Delivering our strategy

- By delivering our strategy we have created a strong underlying business
- Balanced customer spilt
  - UK defence position built on strong, long-term customer relationships
  - opportunities to grow overseas
- £2bn recent contract wins support our growth objectives
  - reinforcing relationships with existing customers
  - adding new customers
  - extending and strengthening market positions
- Well positioned to realise opportunities in bidding and tracking pipeline
- The right business model for the current economic environment
  - customers' imperative to find cost efficient support solutions
  - established track record of delivering efficiencies and increasing availability





Marine and Technology

Building on long-term relationships and strength of UK position to grow international presence

- UK market stable
- Division ideally positioned to
  - meet key customer's requirements - maximum availability and increased financial efficiency
- Long-term programmes and agreements creating opportunities
  - Maritime Support Delivery Framework provides platform for further development of naval base support role and delivery of scope expansion
- Proposed changes to DE&S likely to create further outsourcing opportunities

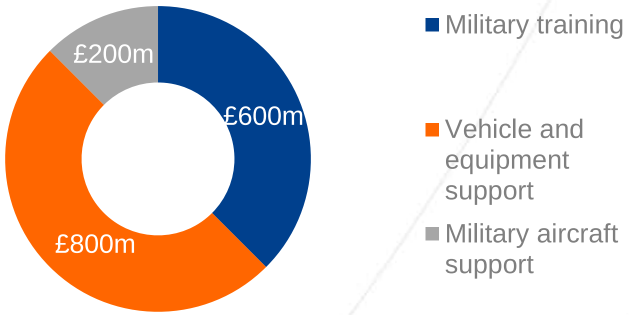
- Replicating UK business overseas
  - Babcock through-life support model ideally positioned for changing market dynamics and increased investment in naval defence programmes
- Excellent progress in Canada and Australia
- Future opportunities identified
  - Australia - further warship support packages, naval infrastructure support and through-life submarine support
  - Canada – warship support
  - South Africa – naval infrastructure support
  - Brazil and Chile – exploring opportunities

Defence and Security

Helping to shape future solutions

- Market stable through last year BUT
  - increasing pressure on budgets and manpower will drive further outsourcing or short-term contract extensions
- Rebids and extensions won during 2012 secure market leading positions in military training and equipment support
  - excellent reputation with customers
- £1.6bn opportunities within core capabilities expected to come to market over next 24 months including
  - Defence Support Group (DSG)
    - MoD reviewing options – expressed interest
  - Logistics Commodities Service Transformation
    - teaming agreement signed with DHL for joint bid
    - process expected to start during 2012
  - tri-service training
  - front line aircraft support
- UK market expertise and capabilities transferable

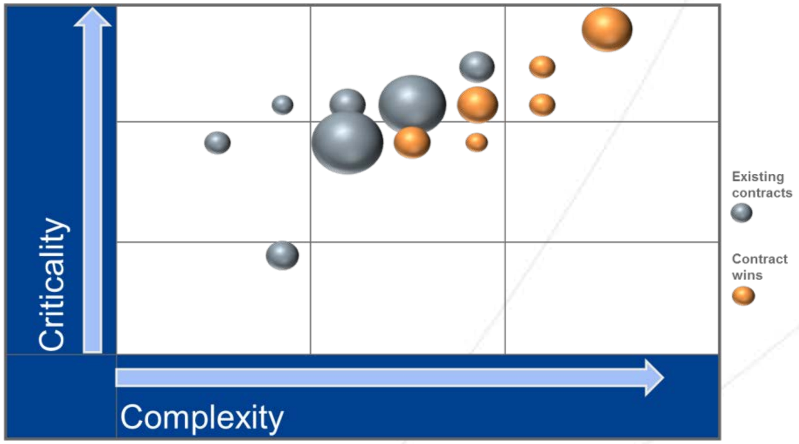
Opportunities in core markets expected over next 24 months



Support Services

Demonstrating benefits of outsourced operations in UK and overseas

- Success last year moved business to higher value end of market
  - opportunities in bid pipeline support this model
- Developing further opportunities, by combining capabilities across the division to deliver additional value for customers
- Mobile Assets
  - progressing Lafarge relationship and actively marketing capability to others in similar markets
  - progressing further police and emergency services fleet management opportunities
- Nuclear
  - creating value for our customer - Dounreay project being delivered 16 years earlier than planned saving over £1bn
  - Super Magnox competition expected during first half
- Education and Training
  - only fully integrated education offering available
  - opportunities to expand training activities in UK and overseas building on successful ‘Academy’ model
- Infrastructure
  - DIO progressing with reorganisation and NGEC
  - significant further opportunities in government property outsourcing



International

South Africa

- General economic environment stable and growth forecast to continue
  - ZAR 800bn 3 year infrastructure investment programme
  - increasing global demand for South African commodities
- Business restructured and well paced to take full advantage of economic recovery
  - established dealership network for Volvo and DAF equipment and plant hire
  - opportunity to build on long-term relationship with Eskom
- Well placed to develop new business streams building on group capabilities and supporting South Africa's ambitions
  - automotive training
  - defence infrastructure and equipment support

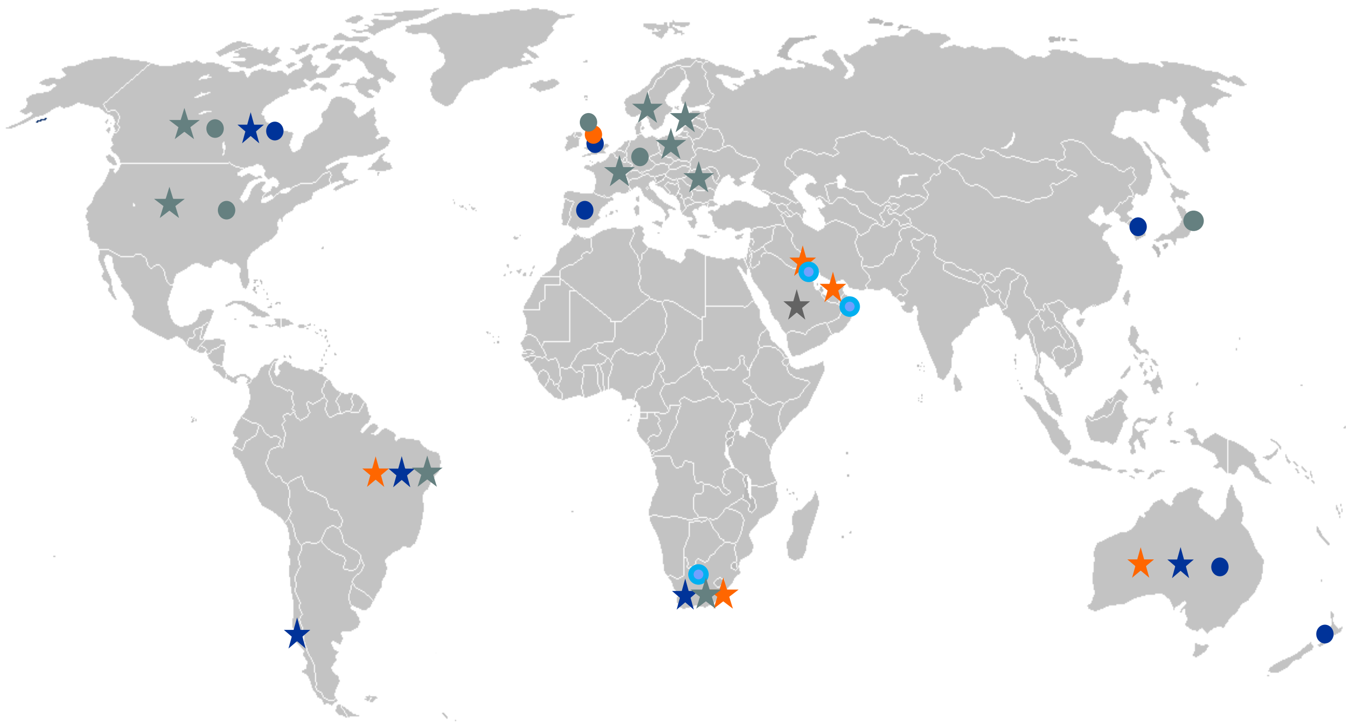
Middle East

- Continuing to build a presence in key markets - process taking time, as expected
- Regional drive for economic diversification and increased spend on education and focus on training ideally suited to our business model

Building an international presence

International growth will

- build on core skills and capabilities within the Group
- support existing customers
- be into markets with similar characteristics to the UK
- be into markets where our skills and capabilities are not available

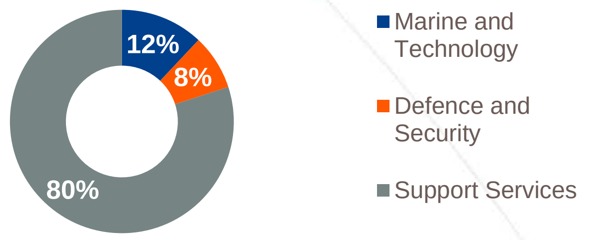


Marine and Technology	Current ●	Future opportunities ★	Current international order book c £650m
Defence and Security	Current ●	Future opportunities ★	Current international order book c £15m
Support Services	Current ●	Future opportunities ★	Current international order book c £300m
International	Current ●		

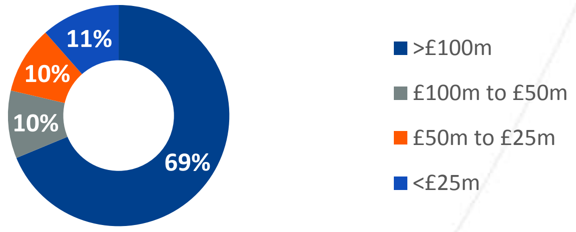
Bid pipeline

- Current bid pipeline stands at £9.5 billion
  - 35% growth over the year, despite c £2bn of contract wins moving into order book
  - reflects positive market environment
- New bids make up 72% of the pipeline
- Currently 19 bids > £100m
  - comprising 69% of our pipeline by value
- Supported by further significant opportunities at tracking stage

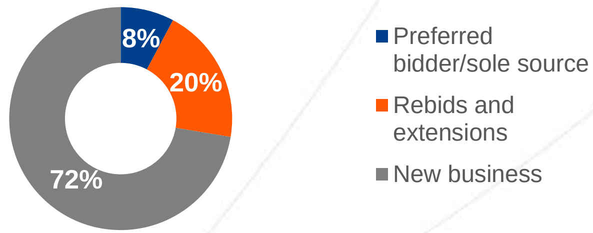
Pipeline by division



Pipeline by contract size



Pipeline by contract type



Future prospects

Estimated timescale	Total value (bidding)	Key contracts (bidding and tracking)
1 (next 6 months)	£1.5bn	• HMS Ocean • HMAS Success • BA ground support equipment - Heathrow • Network Rail vehicle fleet management • Scottish Power Beauly-Denny high voltage power lines • BEPPS Phase 2 – Sellafield
2 (6 – 12 months)	£2.4bn	• Defence Logistics Transformation Programme (Marine and Technology) • Military Flying Training package 1b • Staffordshire County Council school effectiveness • Fire Service College • Scotland and Northern Ireland Prime
3 (12 – 18 months)	£1.7bn	• Canadian Arctic Offshore Patrol Ships • Search and Rescue helicopters • Logistics Commodities Service Transformation (Defence and Security) • Defence School of Transport • National Housing Prime • National Training Estate Prime • Skills Funding Agency Apprenticeships

A strong platform for the future

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- Strategy has enabled us to establish a strong underlying business
  - platform for delivering sustainable growth
- Business model a benefit in current market environment
  - economic climate creating significant growth opportunities in the UK and overseas
- Financially strong business
  - cash generative – deleveraged rapidly post VT acquisition
- The Group continues to benefit from
  - excellent visibility from order book and bid pipeline
- The Board expects the Group to make further strong progress in 2012/13 and for earnings to be ahead of its previous expectations

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Questions?

Appendix

Appendix 1

Statutory to underlying reconciliation

	Continuing operations – statutory (£m)	JV and associates			IFRIC 12 income (£m)	Amortisation of acquired intangibles (£m)	Change in UK tax rate (£m)	Exceptional items (£m)	Continuing operations – underlying (£m)
		Revenue and operating profit (£m)	Finance costs (£m)	Tax (£m)					
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
31 March 2011									
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

Appendix 2

Segmental analysis

	Revenue		Operating profit		Operating margin	
	FY12 £m	**FY11 £m**	**FY12 £m**	**FY11 £m**	**FY12 %**	**FY11 %**
Marine and Technology	**1,084.7**	1,019.5	**135.1**	119.3	**12.5%**	11.7%
Defence and Security						
group	**446.0**	381.9	**51.7**	54.4	**11.6%**	14.2%
JV	**167.3**	87.3	**27.9**	18.8	**16.7%**	21.5%
total	**613.3**	469.2	**79.6**	73.2	**13.0%**	15.6 %
Support Services						
group	**1,037.7**	895.2	**98.0**	75.3	**9.4%**	8.4%
JV	**54.7**	51.4	**8.7**	4.3	**15.9%**	8.4%
total	**1,092.4**	946.6	**106.7**	79.6	**9.8%**	8.4%
International	**280.0**	267.9	**19.3**	18.1	**6.9%**	6.8%
Unallocated	**-**	-	**(11.7)**	(14.8)		
Total						
group	**2,848.4**	2,564.5	**292.4**	252.3	**10.3%**	9.8%
JV	**222.0**	138.7	**36.6**	23.1	**16.5%**	16.7%
total	**3,070.4**	2,.703.2	**329.0**	275.4	**10.7%**	10.2%

Appendix 3

Defined benefit pensions - triennial valuations

	Devonport	Rosyth	BIG	Others
Last valuation date	31 March 2008	31 March 2009	31 March 2010	Various
Next valuation date	31 March 2011	31 March 2012	31 March 2013	Various
Surplus/(deficit) £m	(43.0)	(37.0)	(44.0)	(28.0)
Level of funding	95%	90%	92%	91%
Annual cash contribution from				
• formal valuation £m	27.2	12.3	36.8	9.0
• longevity swap funding £m	4.8	2.5	0.7	
• prepayment £m	(20.0)			
Total annual cash contribution £m	12.0	14.8	37.5	9.0

Appendix 4

Defined benefit pensions - IAS 19 sensitivities

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	Balance sheet £m	Income statement £m
Discount rate 0.1% decrease	47.5	(0.5)
RPI 0.1% increase	(33.8)	2.1
Life expectancy 1/2 year increase	(35.6)	2.3
Real salaries 0.25% increase	(35.3)	3.0

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