Full year results

for year ended 31 March 2013

14 May 2013

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Agenda

• Introduction	Peter Rogers
• Financial and operational review	Bill Tame
• Building long-term growth	Peter Rogers
• Questions	Peter Rogers Bill Tame Archie Bethel John Davies Kevin Thomas

2013 – another excellent year

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

- 2013 results reflect successful delivery of strategy
  - + 6% revenue growth – substantially organic
  - + 14% operating profit growth
- Ideally positioned in current economic environment
  - reflected in + 60% growth in bid pipeline over the year
- Delivering superior and sustainable returns for shareholders
  - eps 71.3p, an increase of 16%
  - total dividend for the year, including final proposed, 26.3p up 16%
- Outlook remains positive

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Financial and operational review

Bill Tame

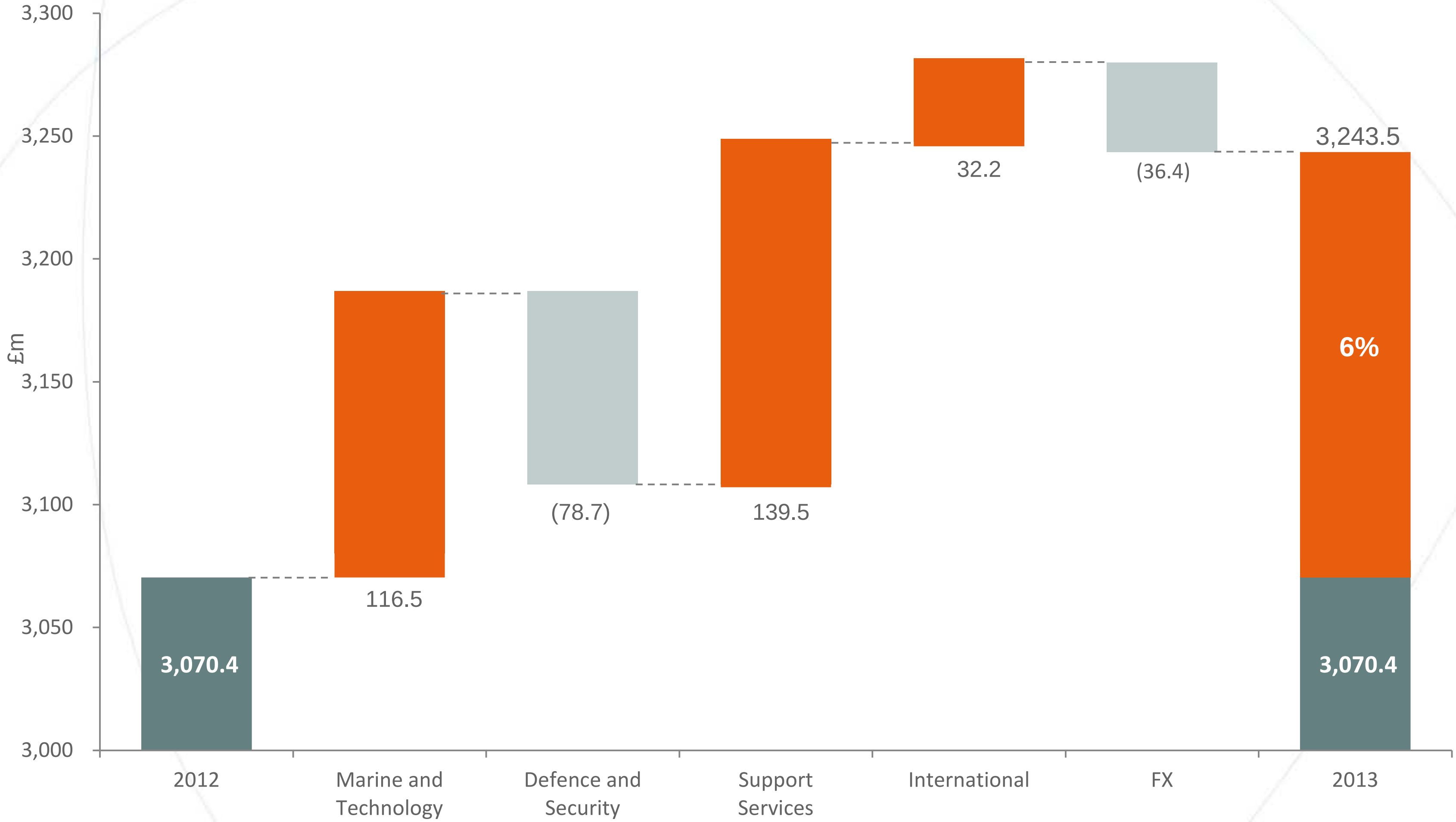
Group Finance Director

Overview

- Revenue up 6%
  - despite FX headwinds and lumpiness of PFI revenue
- Operating profit up 14%
  - margin at 11.6% enhanced by JV income, International and Marine and Technology performance
- Group finance cost below £30m
  - expecting c £26m in FY14
- JV finance cost increase to £29m in line with PFI debt drawdown
  - expecting c £31m in FY14
- eps 71.3p, an increase of 16%
- Proposed total dividend for the year 26.3p
  - up 16%

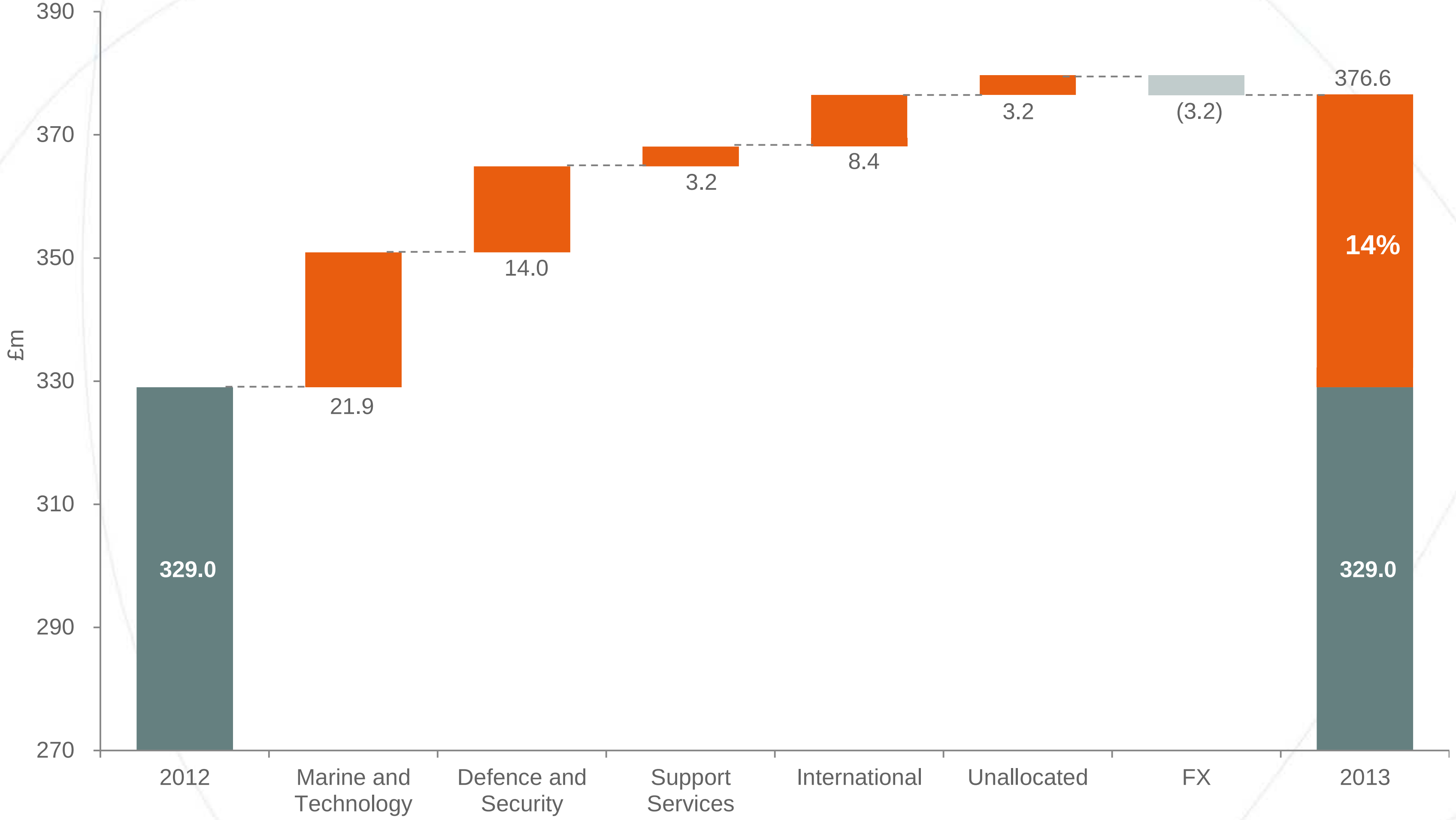
	FY 13 £m	FY 12 £m	Change %
Revenue	**3,243.5**	**3,070.4**	+ 6%
Operating profit	**376.6**	**329.0**	+ 14%
Operating margin	***11.6%***	***10.7%***	
Net finance cost			
group	**(29.6)**	**(35.5)**	
JV	**(29.2)**	**(19.4)**	
	(58.8)	**(54.9)**	
Underlying profit before tax	**317.8**	**274.1**	+ 16%
Tax	**(55.9)**	**(50.4)**	
Effective rate	***18%***	***19%***	
Profit after tax	**261.9**	**223.7**	
EPS	**71.3p**	**61.5p**	+ 16%
Proposed full year dividend	**26.3**	**22.7**	

Revenue growth*



* Underlying – see Appendix 1

Operating profit growth*



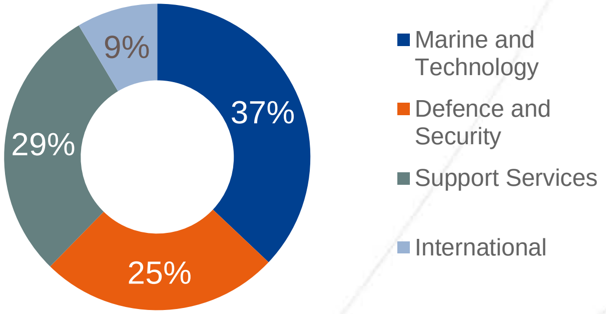
* Underlying – see Appendix 1

Marine and Technology

- Revenue growth of 11%
  - high activity on submarine refit and fleet time support
  - step up in QEC carrier volume plus HMS Ocean refit
  - £10m contribution from LGE
  - international ‘home’ markets Canada and Australia
    - revenue up 40%
- Operating profit up 16%
  - additional gain-share earned on achievement of stretch savings under ToBA
  - export markets driving higher margins
  - margin increased to c 13%
- Outlook for FY 14
  - high single digit revenue growth benefitting from
    - commercial revenues including LGE and BP Quad
    - QEC volumes
    - Australasia
  - post IAS19(R) margin similar to FY13 restated

	FY 13 £m	FY 12 £m	Change %
Revenue	**1,201.6**	1,084.7	+ 11%
Operating profit	**156.9**	135.1	+ 16%
Margin reported	**13.1%**	12.5%	
Margin restated	11.4%	11.3%	

Revenue by division



Defence and Security

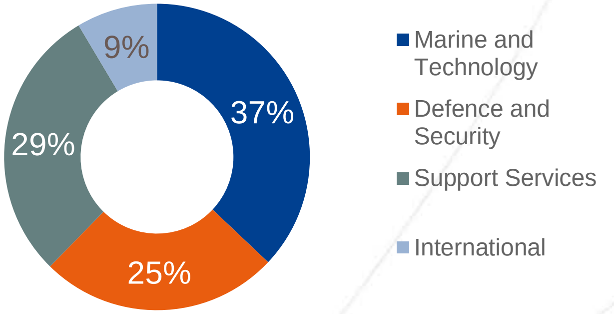
- Revenue reduction (as expected) 9%
  - Airtanker JV down c £40m – major milestones achieved in prior year
  - Navy training down c £20m – lower support activities
  - RSME down c £20m – construction milestones in prior year

- Operating profit up 14%
  - margin catch up on MFTS following customer commitment to future training programmes
  - income increase on larger Airtanker fleet (delivered 11/12)
  - additional gain-share on Regional Primes, RSME training, naval training
  - margin increased to 13.7%

- Outlook for FY 14
  - low single digit revenue growth
    - expect increase in Airtanker equipment deliveries and services volume
    - Primes and RSME volumes up
  - post IAS19(R) margin improving on FY13 restated

	FY 13 £m	FY 12 £m	Change %
Revenue	**820.2**	901.1	- 9%
Operating profit	**112.2**	98.3	+ 14%
Margin reported	**13.7%**	10.9%	
Margin restated	13.4%	10.6%	

Revenue by division

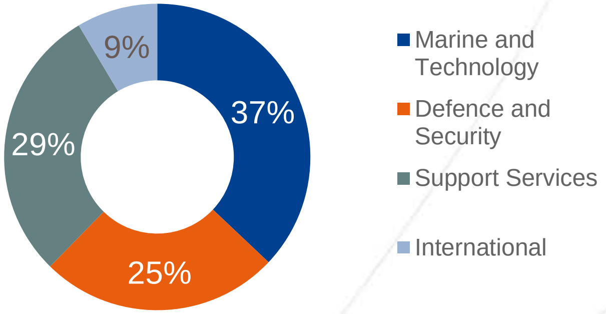


Support Services

- 17% revenue growth
  - as at H1 – Dounreay, Devon Schools, London Fire Brigade training all major contributors
  - Rail up over 10% – renewals, signalling, overhead lines
  - Mobile Assets up 60% – Lafarge, London Fire Brigade fleet
- Operating profit up 4%
  - cautious margin on large new contracts
    - Dounreay, LFB training, LFB equipment, Devon schools
  - high level of bid activity, including Magnox, Airports (now secured), Mobile Assets – all for growth in FY14 and FY15
  - Networks and Mobile Communication markets slow
- Outlook for FY 14
  - high single digit growth in revenue
    - nuclear decommissioning activity increasing at Sellafield
    - Mobile Assets additional mining customers and expansion of Lafarge contract
    - training growth through LFB and new customers
  - post IAS19(R) margin similar to FY13 restated

	FY 13 £m	FY 12 £m	Change %
Revenue	**943.7**	804.6	+ 17%
Operating profit	**91.2**	88.0	+ 4%
Margin reported	**9.7%**	10.9%	
Margin restated	8.8%	9.6%	

Revenue by division



International

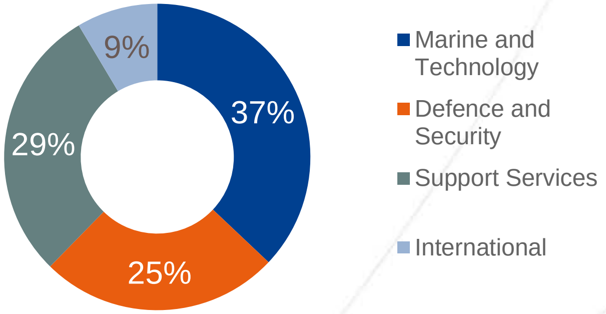
- Revenue flat in Sterling terms but up c 17% excluding FX effect
  - equipment sales remained strong
  - Target Cranes acquired in June 12 and crane hire business at capacity
  - Eskom power station outage increased
  - lead-in design contracts secured in Oman and UAE and Simonstown, South Africa

- Very strong headline growth in operating profit
  - including FX effect
  - operational gearing benefit

- Outlook for FY1 4 at constant exchange rates
  - mid teens growth in revenue
    - assumes markets remain stable
    - opportunities in wider southern Africa are appearing
  - operating margin slightly lower

	FY 13 £m	FY 12 £m	Change %
Revenue	**278.0**	280.0	- 1%
Operating profit	**24.7**	19.3	+ 28%
Margin reported	**8.9%**	6.9%	

Revenue by division



Cash flow

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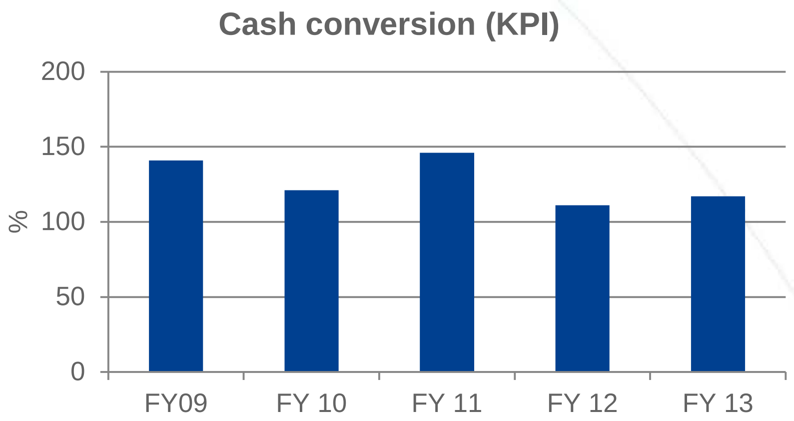
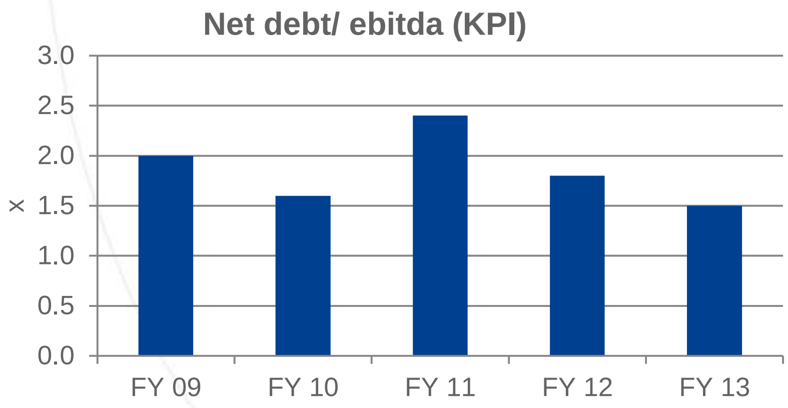
- Cash conversion 117%
- Working capital movement
  - activity levels c £10m
  - pension payments c £50m
- Capital expenditure
  - IT infrastructure
  - dockyard upgrades
- Disposal of VT US and Waste business net of purchase of LGE and Target Cranes
- Outlook for FY 14
  - capex at c 1.5x depreciation
  - working capital similar to FY13
  - tax increasing

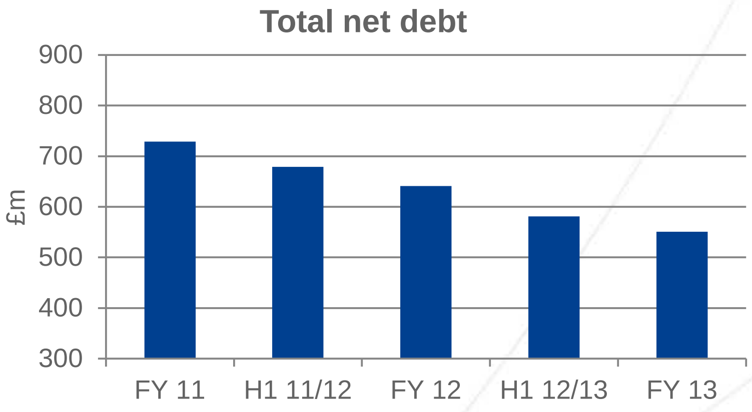
	FY 13	FY 12
Operating profit	315.2	290.2
Non-cash items/ exceptionals	38.5	47.1
Working capital	(60.3)	(76.6)
Cash from operations	293.4	260.7
Cash conversion	*117%*	*111%*
Net capital expenditure	(53.7)	(46.0)
Interest	(30.5)	(37.1)
Tax	(45.8)	(28.0)
Free cash flow	163.4	149.6
Acquisitions/disposals	40.8	4.2
Investment in and loans to JVs	(34.4)	(4.1)
Dividends received from JV	7.1	6.6
Dividends	(86.7)	(73.5)
Other	0.3	5.1
Net cash flow	90.5	87.9

Deleveraging

- Net debt closed at £550.6m down from £641.1m
  - net debt:ebitda 1.5x
- Strong cash conversion at 117%
- Expect net debt:ebitda to be c 1.3x by March 14
- No refinancing due until 2017







Pensions summary

- Strong assets and liabilities management reduced deficit despite
  - bond yields declining
  - inflation forecasts increasing
- Actions taken during year to mitigate volatility include
  - interest rate and inflation hedging
  - flexible defined contribution arrangements established
- Last income statement under ‘old’ IAS19

Balance sheet	FY 13 £m	FY 12 £m
Assets	3,204.8	2,782.7
Liabilities	(3,465.9)	(3,048.6)
Deficit	(261.1)	(265.9)

Income statement	FY 13 £m	FY 12 £m
Service cost	(44.8)	(44.5)
Expected return on assets	168.3	172.1
Interest on obligations	(131.3)	(145.7)
Net charge to operating profit	(13.8)	(18.1)
Total annual cash contributions	97.6	94.3

Impact of IAS 19 revision
Income statement

Income statement (£m)	Actual FY 13			Estimate FY 14
	Reported	Restated		IAS19(R)
Current service cost	44.8	44.8		50.5
Interest on obligation	137.3			
Return on investments based on portfolio	(168.3)			
Operating profit	13.8	44.8		50.5
Interest on net deficit	-	11.8		10.9
Net charge	13.8	56.6		61.4
Tax	(2.5)	(12.8)		(14.1)
Post tax charge	11.3	43.8		47.3
EPS effect versus old IAS19 (pence)		(9.1)		(10.1)

NB - no cash or balance sheet impact

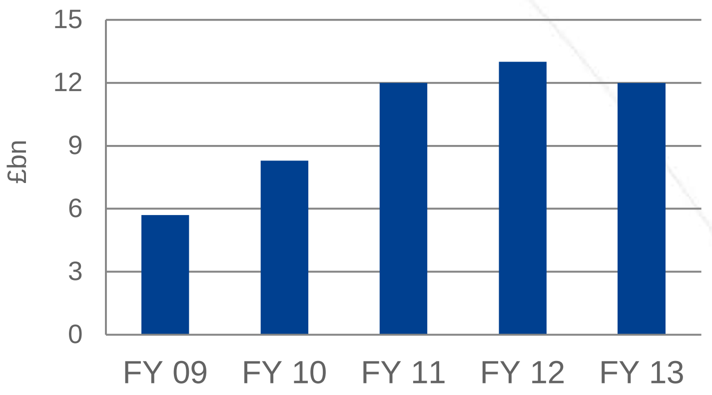
Impact of IAS19 revision
Divisional margins

	Operating margin				
	March 2013 Reported	March 2013 Restated		March 2012 Reported	March 2012 Restated
Marine and Technology	13.1%	11.4%		12.5%	11.3%
Defence and Security	13.7%	13.4%		10.9%	10.6%
Support Services	9.7%	8.8%		10.9%	9.6%
International	8.9%	8.9%		6.9%	6.9%
Group	11.6%	10.7%		10.7%	9.9%

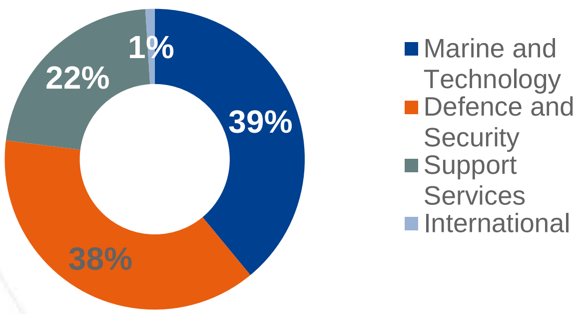
Order book

- Order book £12bn
  - excludes recent Airports wins
- c 70% revenue coverage for FY 14
  - excludes Marine and Technology forward programmes and South Africa
- Positive discussions with the MoD on MSDF
  - > £2bn into the order book on signing
- Regular flow of “book and burn” contracts

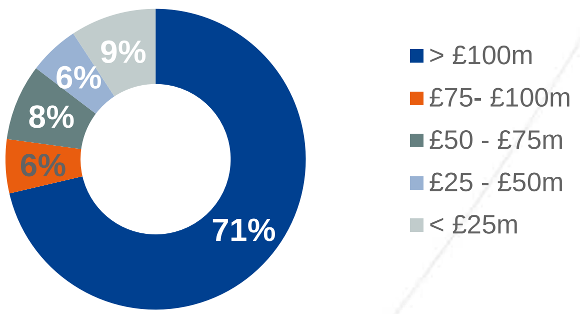
Order book progression



Order book by division



Order book by value



Another good year

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- Strong revenue and earnings growth
- Continued debt reduction
- Order book stable
- Excellent forward visibility
  - outlook positive
- For FY 14
  - high single digit revenue growth
  - margin post IAS19(R)* in 10 – 11% range
  - eps growth low double digit

* see slide 17 Impact of IAS19 revision

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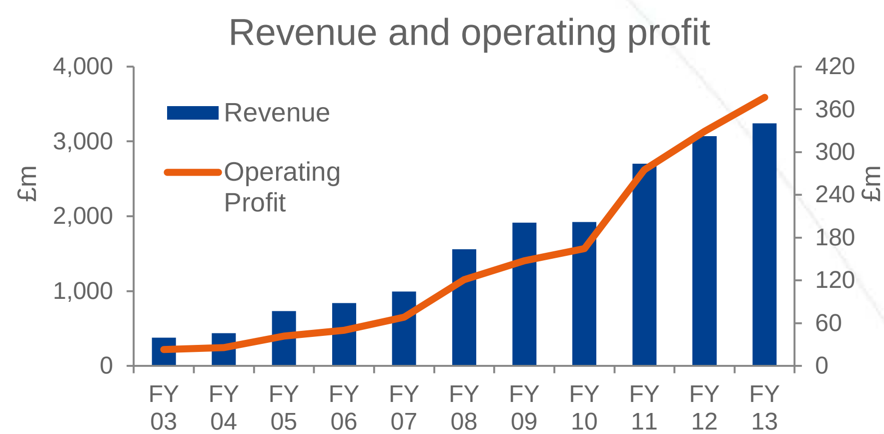
Building long-term growth

Peter Rogers

Chief Executive

Strong and growing business

- Another strong year
  - continuing track record of excellent financial results
- Reflects strength and management depth of business units
- Momentum continues to build
  - bid pipeline increased to £15.5bn from £9.5bn



Positive trading environment

- Market factors continue to drive further growth opportunities
- Babcock working to ensure optimum positioning

Current markets, customers and contracts

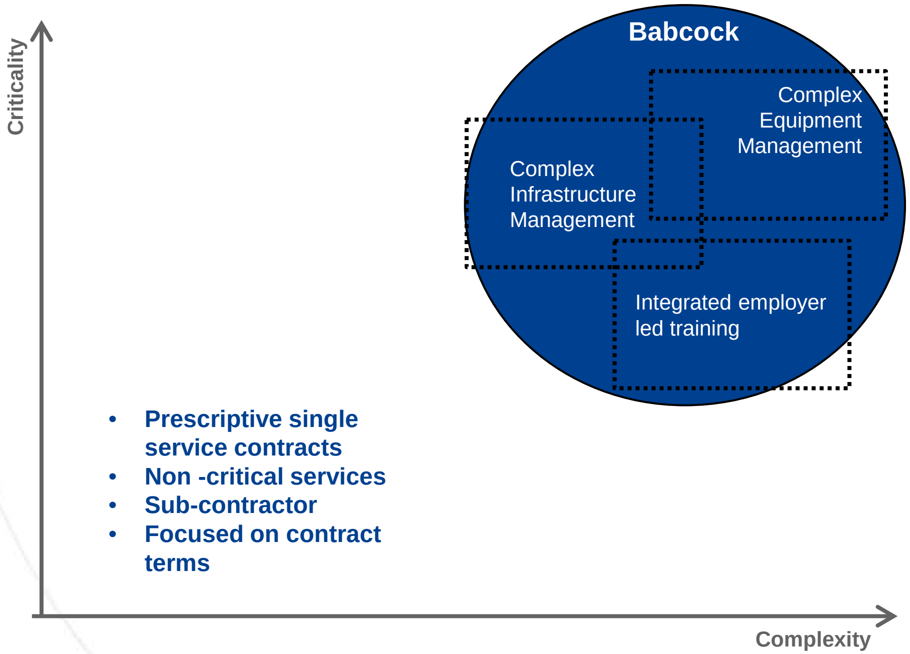
- continued austerity driving focus on cost of delivering key services
  BBC domestic radio services
- re-positioning of 'front line'
  Logistics, Commodities and Services Transformation project (LCST)
- demand for increased availability of assets or life-extensions
  National grid/ high voltage power line upgrades, nuclear power generation
- transformation programmes require complex support solutions
  Army Strategic Training Partner

New markets and customers

- unprecedented domestic and international opportunities
- change can be slow as some customers have no previous experience or knowledge of outsourcing
- however desire to achieve best practice/world class support solutions

Ideally positioned for growth
Consistent strategy and business model

- When looking at opportunities our priorities remain the same
  - supporting or creating market leading positions
  - requiring significant technical skills, knowledge and experience
  - focusing on long-term support for complex programmes



- **Complex integrated output based contracts**
- **Critical to customers' success**
- **Single strategic partner**
- **Long-term relationship**
- **Shared risk/reward**

Developing an international presence

- Significant increase in overseas activities
  - overseas revenues have doubled since 2010 to 16% of total revenue in 2013
- Organic growth is likely to follow similar pattern to Babcock in Australia

	Establish	Consolidate	Grow
	Marine and Technology Systems support	*Marine and Technology* Platform support	Move into new markets delivering critical asset and equipment support
Contracts	• **Collins and Hobart class weapon discharge system** – and subsequent through-life support	• **Anzac class frigates through-life support** • **Shore based test facility (SEA 1000)**	• **Opportunities** – through-life support to amphibious and submarine capabilities – mobile assets and training support
Customers	NAVY	NAVY	NAVY **+ equipment support** **+ civil and military training programmes**
Presence	• Head office Adelaide • Additional facilities – Adelaide – Perth	• c 130 employees • Upgrades to Henderson marine facility, Perth • Support to Anzacs class at Garden Island naval base	• Established Australian Frazer Nash consultancy office • Enhancing workforce – from UK/ Australia • Dedicated civil market focused resource

Bid pipeline reflects positive market

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- Continuing opportunities coming to market
  - defence opportunities moving into bidding as anticipated

    LCST a major component of opportunities flagged at H1 results

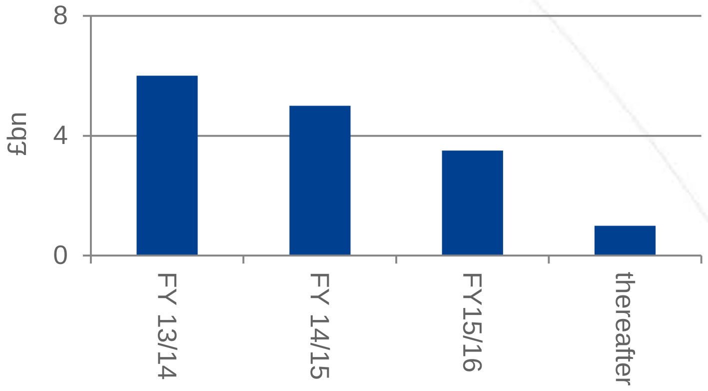
- Bid pipeline
  - £9.5bn in May 2012
  - £13bn in November 2012
  - £15.5bn today

    Magnox, rail electrification and various training and critical asset opportunities

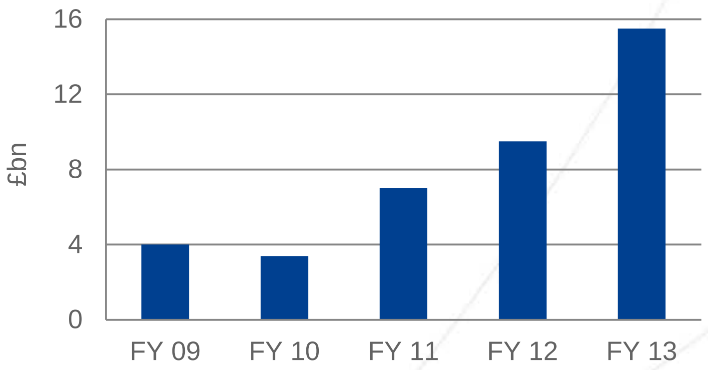
- Long bidding periods for large, complex outsourcing programmes

    NGEC bidding from 2011 - 2014

Pipeline anticipated award dates



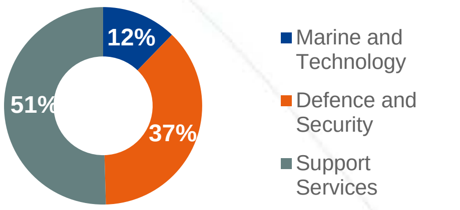
Pipeline progression



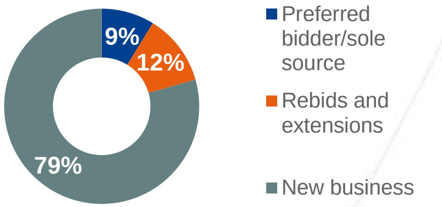
Growth opportunities increasing

- Even split of defence and civil opportunities
  - building on current market leading positions
- 74% of pipeline over £100m total contract value
  - demonstrates focus on large, complex programmes
- New opportunities make up majority of pipeline
- 2012/13 win rate
  - new bids c 40%
  - rebids 100%
- Further significant opportunities in tracking

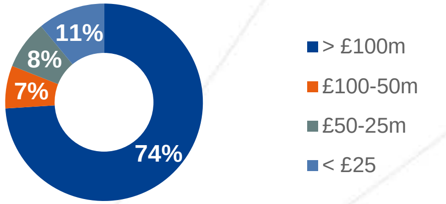
Bid pipeline by division



Pipeline by contract type



Pipeline by contract size



A strong platform

- Continuing to focus on attractive markets
- All with requirements for long-term outsourcing programmes
  - spread across markets and geographies
- Strong operational businesses building on proven capabilities
  - unrivalled depth of knowledge and experience
  - track record of delivering financial and operational efficiency
- Experienced and talented management teams across the Group
  - understand our customers' requirements and how to deliver
- Financially secure
  - high cash conversion and robust balance sheet
- Excellent long-term visibility
- The Board expects the Group to make further strong progress in 2013/14

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Questions?

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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 2013									
Revenue	3,029.4	214.1							3,243.5
Operating profit	234.5	21.2			40.2	66.4		14.3	376.6
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	(29.6)		(29.2)						(58.8)
Profit before tax	224.6	-	-	6.3	-	72.6	-	14.3	317.8
Tax	(28.3)			(6.3)		(17.4)	(1.2)	(2.7)	(55.9)
Profit after tax	196.3	-	-	-	-	55.2	(1.2)	11.6	261.9
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

Appendix 2

Segmental analysis

	Revenue		Operating profit		Operating margin	
	FY 13 £m	FY 12 £m	FY 13 £m	FY 12 £m	FY 13 %	FY 12 %
Marine and Technology						
group	1,193.8	1,084.7	156.3	135.1	13.1%	12.5%
JV	7.8	-	0.6	-	7.7%	-
total	1,201.6	1,084.7	156.9	135.1	13.1%	12.5%
Defence and Security						
group	709.4	733.8	68.0	70.4	9.6%	9.6%
JV	110.8	167.3	44.2	27.9	39.9%	16.7%
total	820.2	901.1	112.2	98.3	13.7%	10.9%
Support Services						
group	848.2	749.9	76.3	79.3	9.0%	10.6%
JV	95.5	54.7	14.9	8.7	15.6%	15.9%
total	943.7	804.6	91.2	88.0	9.7%	10.9%
International	278.0	280.0	24.7	19.3	8.9%	6.9%
Unallocated	-	-	(8.4)	(11.7)		
Total						
group	3,029.4	2,848.4	316.9	292.4	10.5%	10.3%
JV	214.1	222.0	59.7	36.6	27.9%	16.5%
total	3,243.5	3,070.4	376.6	329.0	11.6%	10.7%

Appendix 3

Impact of IAS19 revision

Divisional operating profit and margins

	Operating profit / operating margin			
	March 2013 Reported	March 2013 Restated	March 2012 Reported	March 2012 Restated
Marine and Technology £m / %	156.9 / 13.1%	136.6 / 11.4%	135.1 / 12.5%	122.3 / 11.3%
Defence and Security £m / %	112.2 / 13.7%	110.1 / 13.4%	98.3 / 10.9%	95.9 / 10.6%
Support Services £m / %	91.2 / 9.7%	82.9 / 8.8%	88.0 / 10.9%	77.3 / 9.6%
International £m / %	24.7 / 8.9%	24.7 / 8.9%	19.3 / 6.9%	19.3 / 6.9%
Unallocated £m	(8.4)	(8.7)	(11.7)	(12.0)
Group £m / %	376.6 / 11.6%	345.6 / 10.7%	329.0 / 10.7%	302.8 / 9.9%

Appendix 4

Defined benefit pensions - triennial valuations

	Devonport	Rosyth	BIG	Others	Total
Last valuation date	31 March 2011	31 March 2009	31 March 2010	Various	
Next valuation date	31 March 2014	31 March 2012	31 March 2013	Various	
Deficit £m	(98.0)	(34.0)	(40.0)	(28.0)	
Level of funding	90%	90%	92%	91%	
Annual cash contribution from					
• formal valuation £m	34.2	11.9	38.7	7.8	92.6
• longevity swap funding £m	1.8	2.5	0.7		5.0
• prepayment £m	(20.0)				(20.0)
Total annual cash contribution £m (to March 2013)	16.0	14.4	39.4	7.8	77.6

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