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Half Year Results

for the six months ended 30 September 2013

12 November 2013

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Agenda

Introduction	**Peter Rogers**
Financial and operational review	**Bill Tame**
Looking forward	**Peter Rogers**
Questions	**Peter Rogers** **Bill Tame** **Archie Bethel** **John Davies** **Kevin Thomas**

Strategy delivering

- Strong first half results

- Continuing track record of growth
  - + 9% revenue growth
  - + 9% operating profit growth

- Delivering value for shareholders
  - + 13% EPS growth
  - + 10% interim dividend to 6.9p

Our strategy

Market leading positions

Preferred customer characteristics

Customer focused and long-term relationships

Integrated engineering and technical expertise

Balancing risk and reward

Financial and operational review

Bill Tame - Group Finance Director

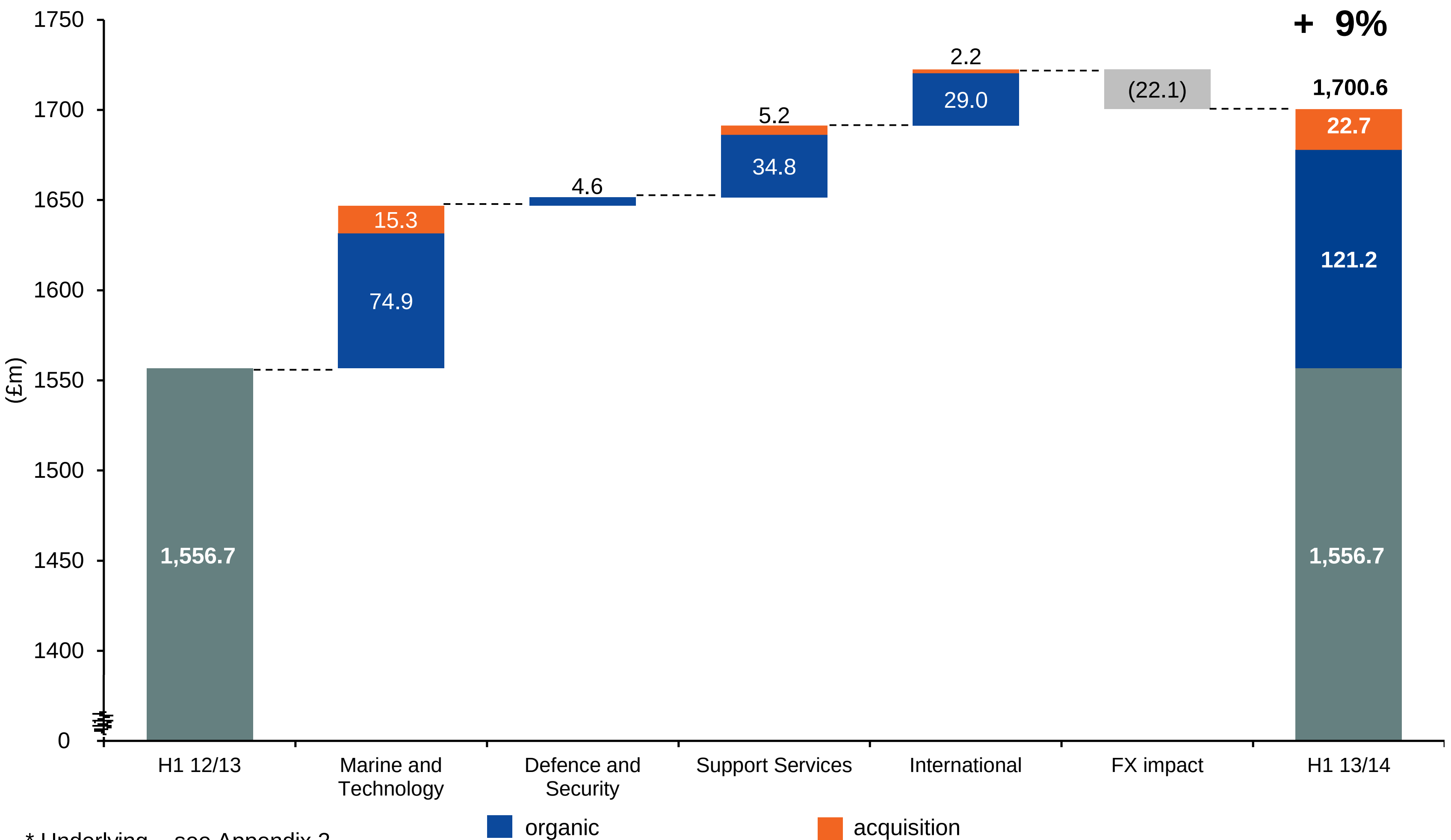
Financial highlights

- Results now on IAS19R basis, H1 12/13 restated
- Revenue and operating profit up 9%
- Organic growth at constant FX rates
  - + 9% revenue
  - + 8% operating profit
- Total group finance cost now includes interest on pension liabilities
- JV interest cost reduced, benefiting from long-term swap valuations
- Tax rate in line with FY 13
  - 18%

	H1 13/14 £m	H1 12/13 £m	Change %
Revenue	**1,700.6**	1,556.7	+ 9%
Operating profit	**172.8**	158.4	+ 9%
Operating margin	***10.2%***	*10.2%*	
Net finance cost			
Group	**(13.0)**	(14.5)	
JV	**(12.7)**	(16.8)	
IAS 19	**(5.4)**	(5.9)	
	(31.1)	(37.2)	
Profit before tax	**141.7**	121.2	+ 17%
Tax	**(25.5)**	(18.9)	
Effective rate	***18.0%***	*15.6%*	
Profit after tax	**116.2**	102.3	+ 14%
EPS	**31.6p**	27.9p	+ 13%
Interim dividend	**6.9p**	6.3p	+ 10%

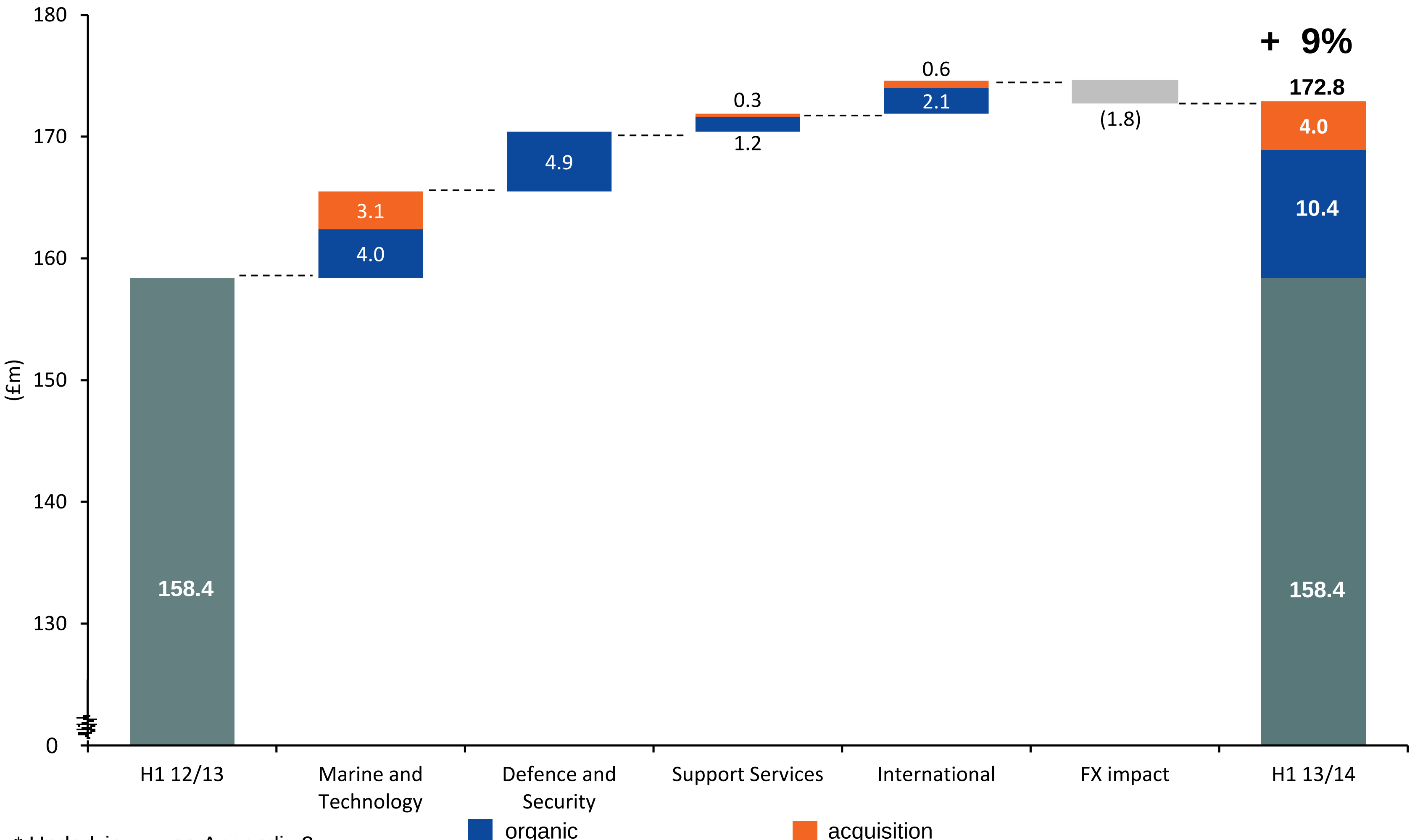
*Underlying – see Appendix 2

Revenue growth*



* Underlying – see Appendix 2

Operating profit growth*



* Underlying – see Appendix 2

Marine and Technology

- Strong revenue growth
  - 13% organic
    - increased activities on QEC, UK and Canadian submarine programmes
    - contract start up in Australia
  - £15m contribution from LGE

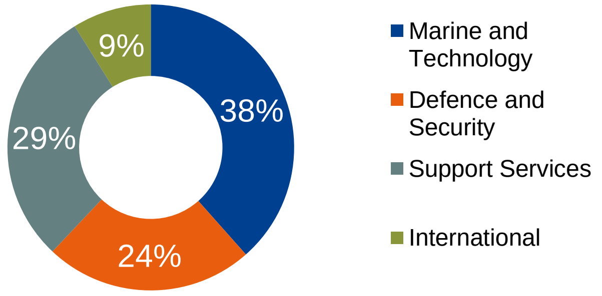
- 22% of divisional revenue from international activities

- As expected operating margin softer vs H1 12/13
  - H1 12/13 included margin pick-up on ToBA 1st pricing period
  - margins remain strong on international contracts
  - UK margins stable and take account of revised share-line on QEC

- Outlook for FY 14
  - high single digit revenue growth
  - margin in line with FY13**

	H1 13/14 £m	H1 12/13 £m	Change
Revenue*	**654.0**	564.3	+ 16%
Operating profit*	**69.6**	62.4	+ 12%
Operating margin	**10.6%**	11.1%	

Revenue by division



* Including share of jv ** see Appendix 3

Defence and Security

- Revenue stable as expected
  - high volumes in vehicle management contracts and good performance in Regional Primes
  - some reductions in naval training and infrastructure activities at RSME

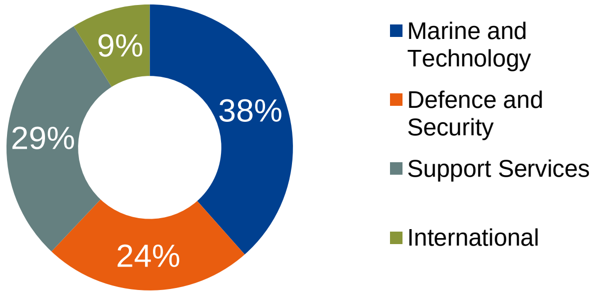
- Growth in operating profit and margin as expected, driven by
  - Airtanker ITS and operations
  - strong performance on vehicle management contracts and Regional Primes
  - Flagship legacy gainshare settlement

- Very high level of bidding activity including
  - NGEC, LCST, Army Strategic Training partner, DSG and Defence Technical Training College

- Outlook for FY 14
  - low single digit revenue growth
  - margin similar to H1

	H1 13/14 £m	H1 12/13 £m	Change
Revenue*	**401.0**	395.4	+ 1%
Operating profit*	**55.3**	50.4	+ 10%
Operating margin	**13.8%**	12.7%	

Revenue by division



* Including share of jv

Support Services

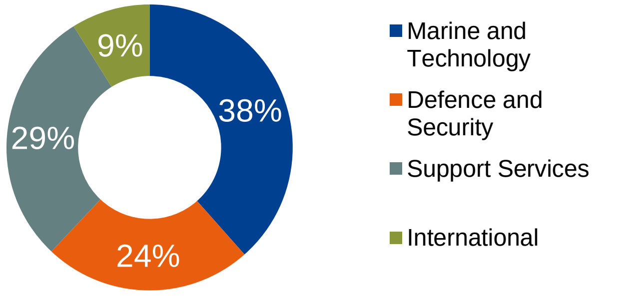
- Good revenue growth
  - 8% organic growth from Mobile Assets, Nuclear and Rail
  - Conbras in Brazil performing well, in line with plan
    - £7m revenue contribution

- Operating profit increased by 4%
  - cautious margin take on new long-term contracts
  - very high level of bidding activity including
    - Nuclear
      - Magnox and Research Sites
      - Chalk River, Canada
    - Mobile Assets
      - London Fire Brigade
      - extending and developing opportunities for mining companies

- Outlook for FY 14
  - high single digit revenue growth
  - margin similar to H1

	H1 13/14 £m	H1 12/13 £m	Change
Revenue*	**494.2**	453.9	+ 9%
Operating profit*	**39.3**	37.8	+ 4%
Operating margin	**8.0%**	8.3%	

Revenue by division



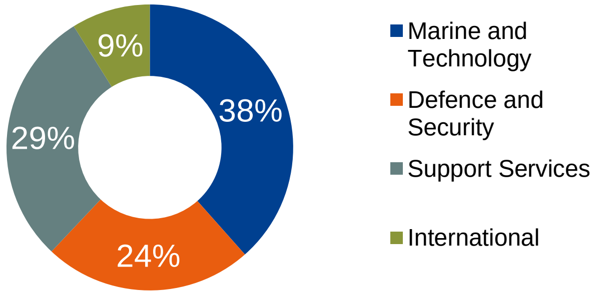
* Including share of jv

International

- 22% organic revenue growth excluding FX impact
  - continuing strong market for equipment
  - crane hire operating at full capacity
  - significant increase in power generation support activities
  - Rand much weaker than anticipated
- 25% increase in operating profit growth excluding FX impact
  - stable margins
- Outlook for FY 14
  - revenue growth in sterling terms unlikely to be greater than low to mid-single digit depending on currency
  - margin similar to H1

	H1 13/14 £m	H1 12/13 £m	Change
Revenue	**151.4**	143.1	+ 6%
Operating profit	**11.9**	11.1	+ 7%
Operating margin	**7.9%**	7.8%	

Revenue by division



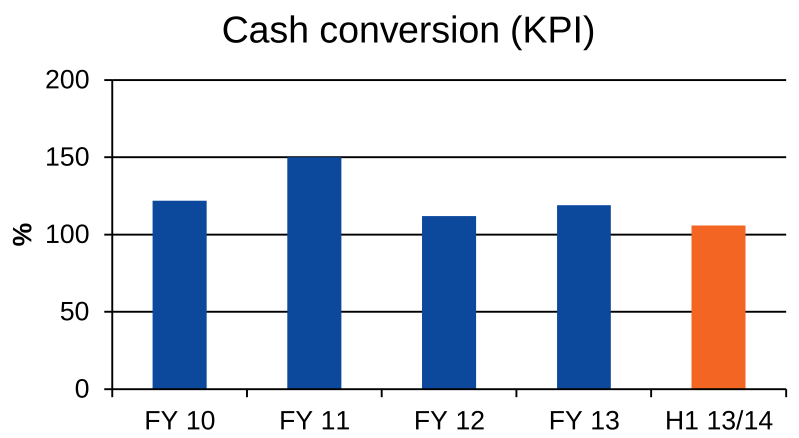
Cash flow

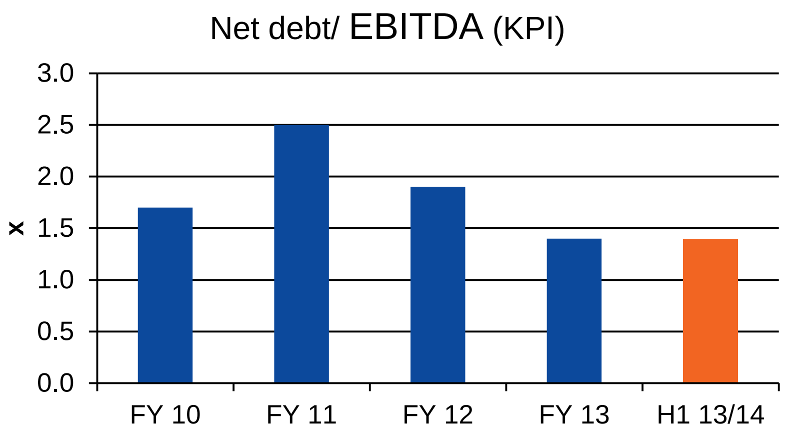
- Cash conversion 106%
- Working capital
  - funding growth
  - unwind of advance payments
- Capex increased as expected
  - investment in dockyard facilities
  - IT infrastructure and cyber security systems
  - investment in additional assets for SA crane business
  - investment in assets and infrastructure to support contract wins
- Tax increasing as anticipated
- Conbras acquisition £20m less UKAEA Pension Administration Office deferred consideration £4m
- Outlook for FY 14
  - capex c 1.6 x depreciation
  - working capital as for H1
  - tax as for H1

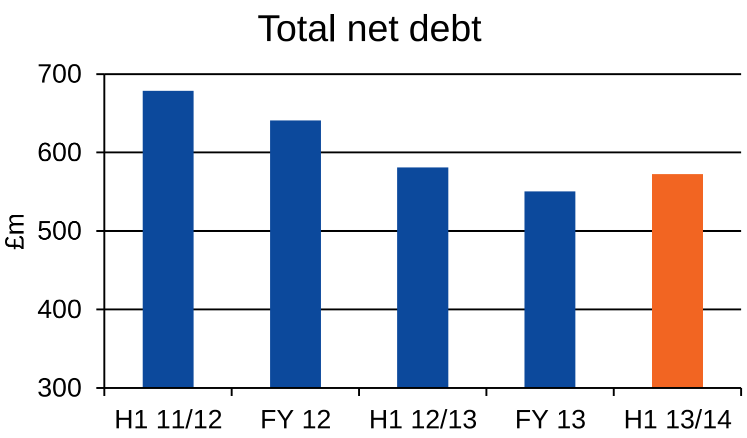
	H1 13/14 £m	H1 12/13 £m	FY 13 £m
Operating profit	**142.2**	128.2	284.2
Non-cash items/ exceptionals	**30.0**	24.9	38.5
Working capital	**(25.3)**	(11.0)	(29.3)
Cash from operations	**146.9**	142.1	293.4
Cash conversion	***106%***	*115%*	*119%*
Net capital expenditure (including finance leases)	**(34.9)**	(26.0)	(53.7)
Interest	**(16.5)**	(14.7)	(30.5)
Tax	**(30.6)**	(24.5)	(45.8)
Free cash flow	**64.9**	76.9	163.4
Acquisitions and disposals	**(15.9)**	51.9	39.5
Investments in JV	**1.5**	(6.6)	(24.9)
Dividends	**(73.6)**	(62.4)	(86.7)
Other	**1.5**	0.2	(0.8)
Net cash flow	**(21.6)**	60.0	90.5

Net debt

- Net debt closed at £572.2m
  - net debt/ EBITDA 1.4 x*
- 31.03.13 debt £550.6m
  - net debt/ EBITDA 1.4 x*
- Strong cash conversion - remains over 100%
- Expect debt to be c 1.3 x net debt/ EBITDA by March 2014





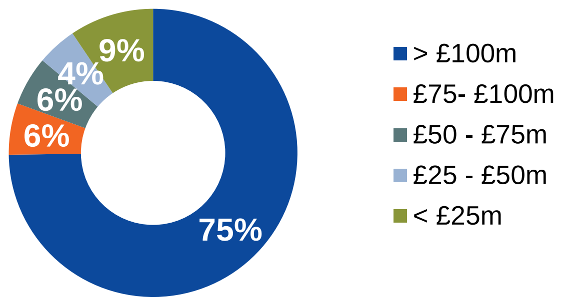


* restated for IAS 19R and inclusion of jvs

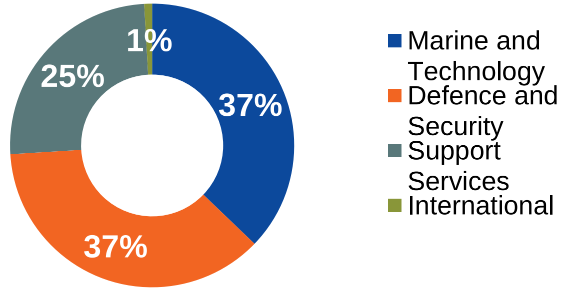
Order book

- Order book stable at £12bn
- c 90% revenue coverage for FY 14
  - c 50% revenue visibility for FY 15
  - excludes Marine and Technology forward programmes and South Africa
- LGE order book doubled since acquisition
  - £70m of new orders
- MSDF discussions with MoD on-going
  - c £2bn into order book on signature

Order book by value



Order book by division



Continuing to deliver

- Growth
- Cash
- Supported by solid order book
- For FY 14
  - high single digit revenue growth
  - margin in 10 - 11% range
  - eps growth low double digit

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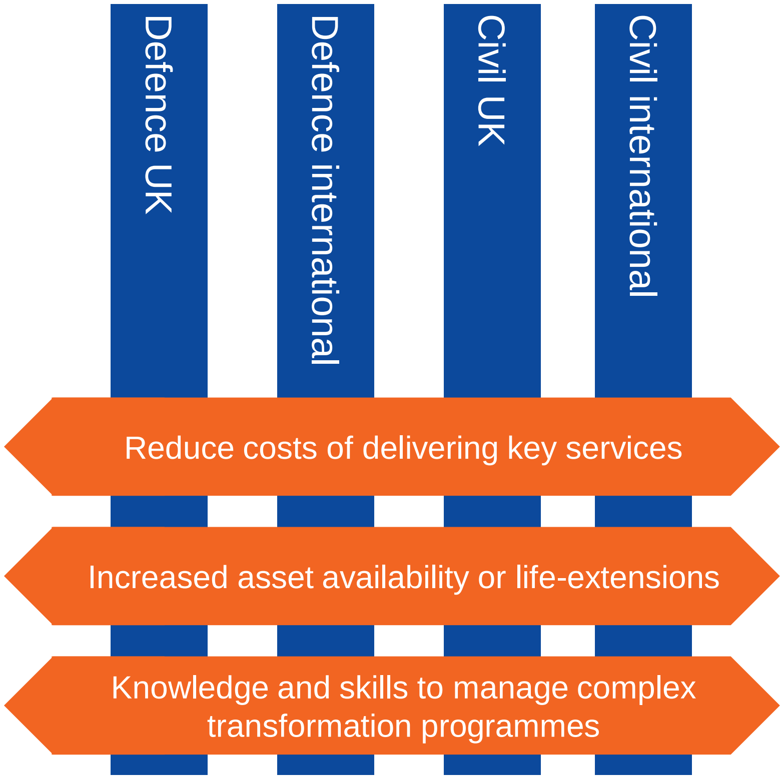
Looking forward

Peter Rogers, Group Chief Executive

An environment we understand

- No change to economic pressures or financial constraints being experienced by our customers
  - focus remains on cost of delivering key services
  - for both public and private sectors
- Consistent market dynamics expected for a number of years
- Benefits of our business model understood in the UK and increasingly overseas
  - no change to type and scale of opportunities coming from UK public sector
  - private sector increasingly focused on cost of managing assets
  - UK reputation helping us to be part of outsourcing conversation in overseas markets

Common customer requirements across our markets



Consistent strategy and business model

Priorities when evaluating opportunities remain the same
- focused on complex and critical business model

- Long-term customer focused relationships
  - understand our customers' requirements
  - focus on outputs
  - well positioned to drive efficiencies over the long-term

    Management of London Fire Brigade training to 2037
    Royal School of Military Engineering training support and delivery to 2039

- Platform agnostic approach
  - ability to operate across diverse and complex asset fleets

    Aggregate Industries mobile asset support contract
    MoD construction and white vehicle fleet management contracts

- Depth and breadth of technical knowledge and expertise recognised by our customers
  - allows us to take on contracts that others can't

    Largest employer of nuclear qualified engineers
    UK's leading maritime support provider

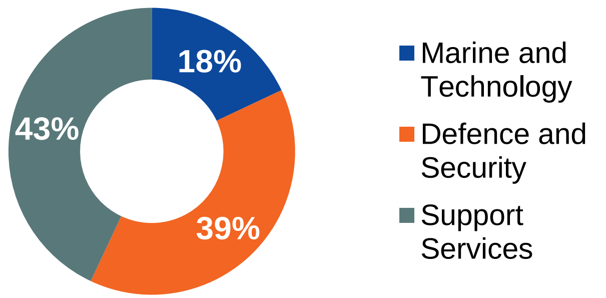
- Track record of managing large scale complex and critical programmes
  - trusted to deliver by our customers

    £1.6bn PBO Dounreay decommissioning
    Providing critical infrastructure services and support to 30% of the MoD's estate in UK and Germany

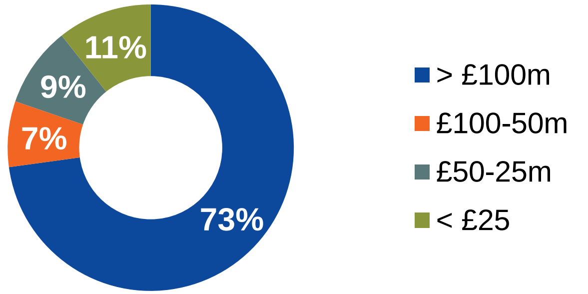
Bid pipeline
First half

- Stable at £15.5bn
- Shift in pipeline mix
  - additional overseas naval opportunities for Marine and Technology
  - Aggregate Industries, baggage handling and BA wins to order book in Support Services
- 73% of pipeline over £100m total contract value
- H1 13/14 win rate
  - new bids c 45%
  - rebids c 90%
- No change to the extended bid process required for complex outsourcing programmes
  - changes to timing not unusual
  - requires resources and financial scale to cope

Bid pipeline by division



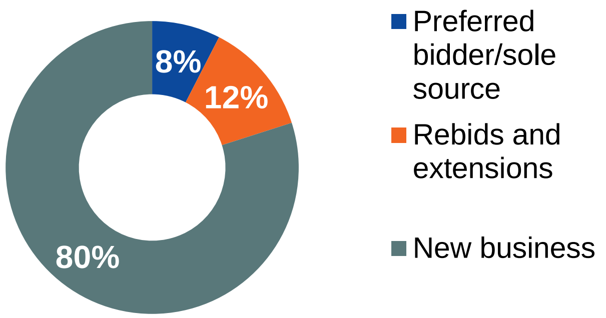
Pipeline by contract size



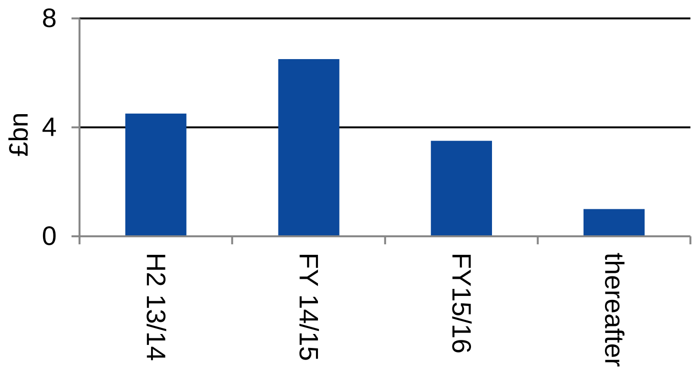
Bid pipeline
Supporting growth over the long-term

- New bids continue to be majority of pipeline
- Substantial opportunities in the near-term
  - London Fire Brigade vehicle support (H2 13/14)
  - Magnox and Research Sites decommissioning (H2 13/14)
  - Next Generation Estates contracts (H1 14/15)
- …and the medium-term
  - Logistics Commodities Services Transformation (LCST) (H1 15/ 16)
  - and others including
    - rail frameworks
    - nuclear new build

Pipeline by contract type



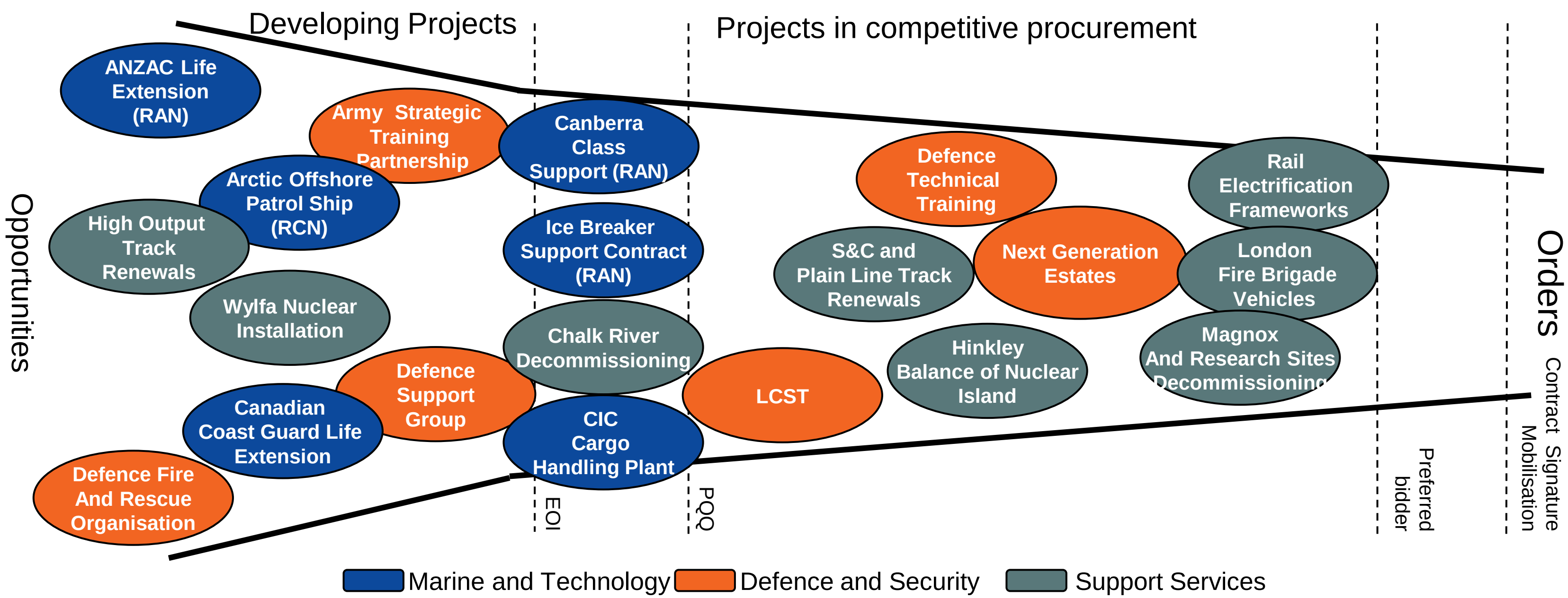
Pipeline anticipated award dates



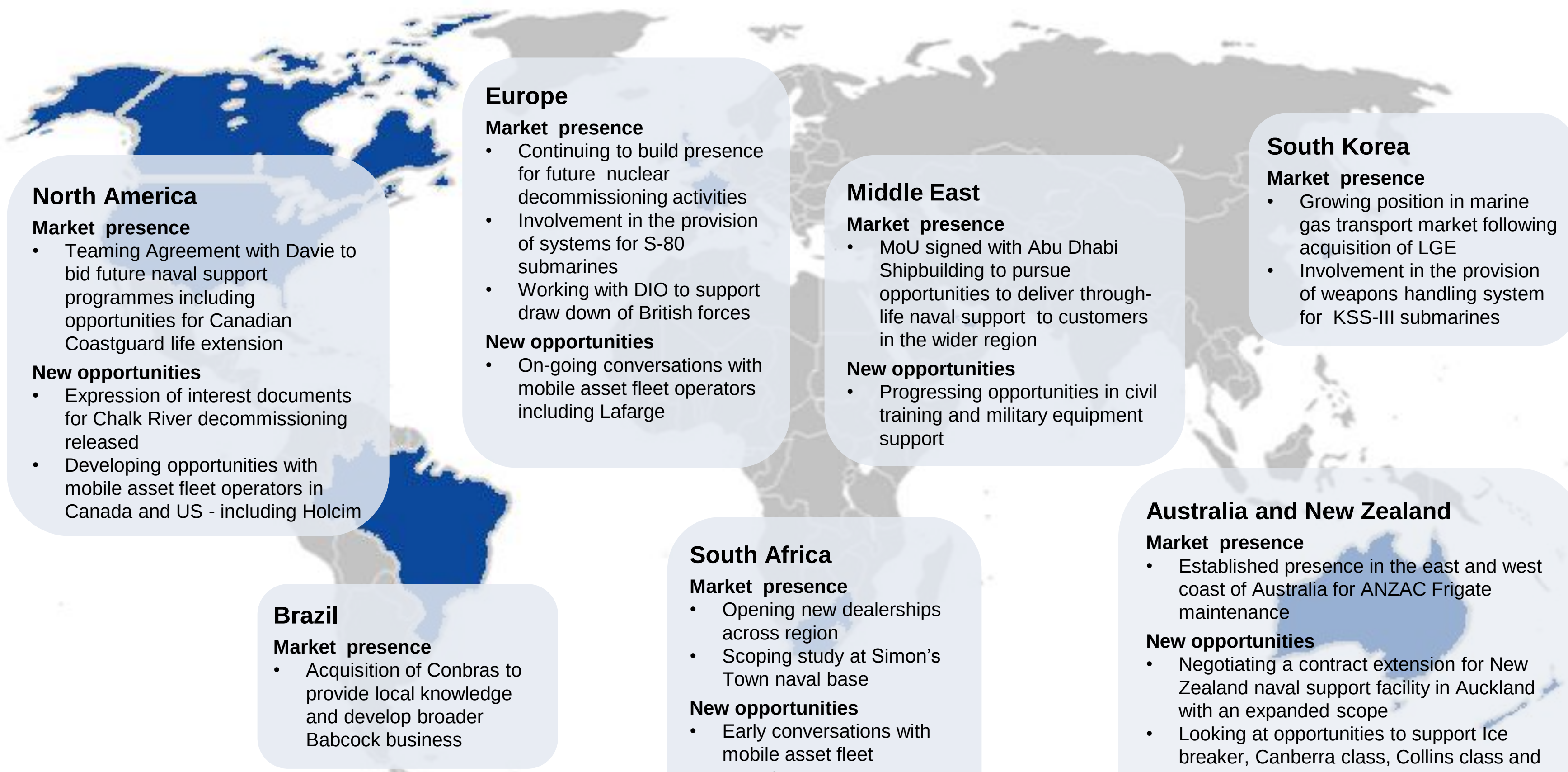
A broad range of opportunities

- Continuing to focus on opportunities that build on strategic objectives and key capabilities
  - supporting or creating market leading positions
  - requiring significant technical skills, knowledge and experience
  - focusing on long-term support for complex programmes
- International opportunities built on UK expertise and strength of local reputation

Selection of larger opportunities



Further steady progress in international markets



North America

Market presence

- Teaming Agreement with Davie to bid future naval support programmes including opportunities for Canadian Coastguard life extension

New opportunities

- Expression of interest documents for Chalk River decommissioning released
- Developing opportunities with mobile asset fleet operators in Canada and US - including Holcim

Europe

Market presence

- Continuing to build presence for future nuclear decommissioning activities
- Involvement in the provision of systems for S-80 submarines
- Working with DIO to support draw down of British forces

New opportunities

- On-going conversations with mobile asset fleet operators including Lafarge

Middle East

Market presence

- MoU signed with Abu Dhabi Shipbuilding to pursue opportunities to deliver through-life naval support to customers in the wider region

New opportunities

- Progressing opportunities in civil training and military equipment support

South Korea

Market presence

- Growing position in marine gas transport market following acquisition of LGE
- Involvement in the provision of weapons handling system for KSS-III submarines

Brazil

Market presence

- Acquisition of Conbras to provide local knowledge and develop broader Babcock business

South Africa

Market presence

- Opening new dealerships across region
- Scoping study at Simon's Town naval base

New opportunities

- Early conversations with mobile asset fleet operators
- Opportunities to establish a focussed training business

Australia and New Zealand

Market presence

- Established presence in the east and west coast of Australia for ANZAC Frigate maintenance

New opportunities

- Negotiating a contract extension for New Zealand naval support facility in Auckland with an expanded scope
- Looking at opportunities to support Ice breaker, Canberra class, Collins class and ANZAC life extension
- Opportunities on SEA1000 new submarine programme
- Opportunities in mobile assets, training and infrastructure support

A strong platform for the future

- Continued strong operational and financial performance
  - helping to deliver superior and sustainable shareholder returns
- Our markets remain positive
  - with common customer requirements to reduce costs, increase asset availability or provide life-extensions as well as provide knowledge and skills to manage complex transformation programmes
- We remain well suited to the operating environment
  - long-term customer focused relationships
  - platform agnostic approach
  - unique skills, knowhow and capabilities
  - proven track record of delivering for our customers
- Excellent forward visibility of revenues supported by strong order book
  - significant medium and long-term opportunities in the bid pipeline and tracking
- Growth will build on our strengths, reputation and track record
- The Board remains confident of delivering further strong progress this year, in line with its expectations

Questions?

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Appendix

Appendix 1
H1 segmental analysis

	Revenue		Operating profit		Operating margin	
	H1 13/14 £m	H1 12/13 £m	H1 13/14 £m	H1 12/13 £m	H1 13/14 %	H1 12/13 %
Marine and Technology						
group	**645.9**	564.3	**69.0**	62.4	**10.7%**	11.1%
JV	**8.1**	-	**0.6**	-	**7.4%**	-
total	**654.0**	564.3	**69.6**	62.4	**10.6%**	11.1%
Defence and Security						
group	**338.3**	339.9	**33.7**	28.2	**10.0%**	8.3%
JV	**62.7**	55.5	**21.6**	22.2	**34.4%**	40.0%
total	**401.0**	395.4	**55.3**	50.4	**13.8%**	12.7%
Support Services						
group	**448.0**	403.0	**31.7**	30.7	**7.1%**	7.6%
JV	**46.2**	50.9	**7.6**	7.1	**16.5%**	13.9%
total	**494.2**	453.9	**39.3**	37.8	**8.0%**	8.3%
International	**151.4**	143.1	**11.9**	11.1	**7.9%**	7.8%
Unallocated	**-**	-	**(3.3)**	(3.3)		
Total						
group	**1,583.6**	1,450.3	**143.0**	129.1	**9.0%**	8.9%
JV	**117.0**	106.4	**29.8**	29.3	**25.5%**	27.5%
total	**1,700.6**	1,556.7	**172.8**	158.4	**10.2%**	10.2%

Appendix 2

H1 statutory to underlying reconciliation

		Continuing operations – statutory (£m)	JV and associates			IFRIC 12 income (£m)	Amortisa-tion of acquired intangibles (£m)	Change in UK tax rate (£m)	Exception al items (£m)	Continuing operations – underlying (£m)
			Revenue and operating profit (£m)	Finance costs (£m)	Tax (£m)					
30 Sept '13	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
30 Sept '12	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

Appendix 3

A reminder: divisional operating profit and margins restated

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	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

Restatement of FY 13 full year results for changes in IAS 19

Income statement Underlying continuing	FY 13 reported £m	FY 13 restated £m
Group revenue	3,029.4	**3,029.4**
JV revenue	214.1	**214.1**
Total revenue	3,243.5	**3,243.5**
Group operating profit	316.9	**385.9**
JV operating profit	59.7	**59.9**
Total operating profit	376.6	**345.6**
Net finance costs – Group	(29.6)	**(29.6)**
Net finance costs - JV	(29.2)	**(29.2)**
IAS 19 Pension	-	**(11.8)**
Total finance costs	(58.8)	**(70.6)**
Profit before tax	317.8	**275.0**
Tax	(55.9)	**(45.6)**
Profit after tax	261.9	**229.4**
EPS	71.3p	**62.2p**

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