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Half Year Results

for the six months ended 30 September 2015

24 November 2015

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Agenda

Introduction	**Peter Rogers**
Financial and operational review	**Franco Martinelli**
Growth and visibility	**Peter Rogers**
Questions	**Peter Rogers** **Franco Martinelli** **Archie Bethel** **Roger Hardy** **John Davies** **Bill Tame**

Group structure

Babcock International Group
Chief Executive, Peter Rogers

Marine and Technology
Archie Bethel

- Naval Marine
- Energy and Marine Services
- Technology
- International

Defence and Security
Roger Hardy

- Air
- Land
- Sea

Support Services
John Davies

- Cavendish Nuclear
- Critical Services
- Integrated Services
- Network Engineering
- Skills & Learning

International
Bill Tame

- Mission Critical Services
- Africa
- Middle East

Group Finance Director
Franco Martinelli

- Finance
- IT
- Security
- Corporate Development

Continued growth and visibility

We have:

Delivered growth through strong underlying performance

- good delivery and significant growth on existing contracts
- new contracts awarded

Maintained the order book at record levels, excellent visibility of future revenues

- £2bn order intake in period
- 92% of revenue in place for 2015/16
- 60% of revenue in place for 2016/17

Maintained the bid pipeline at £10.5 billion of opportunities

- £2.5bn of new entries into bidding pipeline
- underpins future growth

Continued focus on shareholder value

- 11% increase in EPS
- 10% increase in interim dividend

Key markets remain positive

Financial and operational review

Franco Martinelli - Group Finance Director

Group financial highlights

Headline
- +12% growth in revenue
- +6% growth in operating profit

Organic growth at constant exchange rates
- +10% growth in revenue
- +8% growth in operating profit

Cash
- cash conversion (pre capex): 112%
- cash conversion (post capex): 73%
- free cash flow yield increasing to 6.6%

EPS
- +11% growth

Net debt
- net debt to ebitda improved to 2.1x

Income Statement

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Group organic growth at constant exchange rates

- +10% revenue
  - FX effects: £50m
- +8% operating profit
  - FX effects on operating profit: £8m

Margin 10.8%

Profit before tax increased by 14%

Profit after tax increased by 16%

EPS increased 11%

Interim dividend increased 10%

	H1 15/16 £m	H1 14/15 £m	Change
Total revenue	**2,349.2**	2,103.2	+12%
Operating profit	**253.0**	239.5	+6%
Operating margin	***10.8%***	*11.4%*	
Profit before tax	**213.6**	187.0	+14%
Profit after tax	**177.3**	153.3	+16%
EPS	**34.5**	31.0	+11%
Interim dividend	**6.05p**	5.5p	+10%

On an underlying basis

Marine and Technology

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Strong performance

- +11% revenue
- +11% operating profit
- margins stable

Good progress on long term contracts

- MSDF – successful first year
- warship and submarine refits performing well (HMS Vengeance, HMS Talent, HMS Albion)
- Type 23 life extension work began well - HMS Monmouth
- second OPV for Irish Naval Service delivered, third in production
- growth in weapons handling and launch systems work
- QEC volumes up in H1, decreasing in H2

Outlook

- on track to deliver high single-digit revenue growth for full year
- full year margins similar to full year 14/15

Marine and Technology		H1 15/16 (£m)	H1 14/15 (£m)	Change
Revenue	total (incl. JVs)	**803.0**	725.1	+11%
	JVs	**10.2**	8.9	+15%
Operating profit	total (incl. JVs)	**86.4**	77.7	+11%
	JVs	**1.5**	1.2	+25%

Operating margin	total (incl. JVs)	**10.8%**	10.7%
	JVs	**14.7%**	13.5%

On an underlying basis

Defence and Security

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Performance in line with expectations
- -3% revenue
- +4% operating profit
- operating margin increased to 15.0%

Good progress on contracts
- Primes replaced with long-term partnership with DSG
  - all milestones met, awarded further scope
- vehicle and fleet support contracts performing well
- army training and maintenance contracts performing strongly
  - further sole source contract under negotiation
- awarded 5-year Royal Navy rotary wing contract
- joint ventures performing as expected
- MFTS Fixed Wing: financial close end 2015

Outlook
- DSG, Fixed Wing - reflected in second half growth
- division on track to deliver low single-digit revenue growth for full year
- full year margins consistent with first half

Defence and Security		H1 15/16 (£m)	H1 14/15 (£m)	Change
Revenue	total (incl. JVs)	**404.0**	414.4	-3%
	JVs	**42.4**	60.9	-30%
Operating profit	total (incl. JVs)	**60.6**	58.5	+4%
	JVs	**22.7**	23.1	-2%

Operating margin	total (incl. JVs)	**15.0%**	14.1%
	JVs	**53.5%**	37.9%

On an underlying basis

Support Services

Strong performance
- +30% revenue, driven by start of Magnox
- +16% operating profit
- margin reflects early stage of Magnox contract

Good progress across markets
- strong performance in nuclear
  - Dounreay scope growth
  - EDF preferred bidder award
- other businesses performing in line with expectations
  - Coleraine to Derry rail resignalling
  - new training contracts (BMW*, Oman, Skills2Learn, Network Rail*)
  - New Aggregate Industries US fleet management contract

Outlook
- growth to slow over the full year as decommissioning progresses

Support Services		H1 15/16 (£m)	H1 14/15 (£m)	Change
Revenue	total (incl. JVs)	**729.4**	559.1	+30%
	JVs	**253.2**	89.2	+184%
Operating profit	total (incl. JVs)	**47.4**	40.7	+16%
	JVs	**9.2**	7.7	+19%

Operating margin	total (incl. JVs)	**6.5%**	7.3%
	JVs	**3.6%**	8.6%

On an underlying basis

*rebids

International

South Africa

5% revenue decline in local currency (Rand) – commodity headwinds

Power generation and transmission business progressing well
- full order book
- high bidding activity

Equipment and truck market shares increasing

Outlook
- growth in power generation business
- no improvement in commodity prices expected in second half

International		H1 15/16 (£m)	H1 14/15 (£m)	Change
Revenue	total (incl. JVs)	**412.8**	404.6	+2%
	JVs	**4.0**	2.8	+43%
Operating profit	total (incl. JVs)	**61.6**	64.1	-4%
	JVs	**1.5**	1.3	+15%
Operating margin	total (incl. JVs)	**14.9%**	15.8%	
	JVs	**37.5%**	46.4%	

On an underlying basis

International

MCS

Results in line with expectations
- revenue: £292.7m
- operating profit: £53m
- margin: 18.1%

4% revenue growth at constant exchange rate*
- emergency services revenue up 10%
- oil and gas services revenue declined 9%

Excluding no-margin pass-through fuel costs, revenue growth +7%
- 31 contracts and extensions won in the period (7 new contracts)
- significant country entries into Mozambique/Ghana
- capturing procurement, fleet and engineering efficiencies

Outlook
- revenue expected to be flat at constant exchange rates
- full year margins at 14/15 levels
- capital expenditure to reduce to £50m

International		H1 15/16 (£m)	H1 14/15 (£m)	Change
Revenue	total (incl. JVs)	**412.8**	404.6	+2%
	JVs	**4.0**	2.8	+43%
Operating profit	total (incl. JVs)	**61.6**	64.1	-4%
	JVs	**1.5**	1.3	+15%

Operating margin	total (incl. JVs)	**14.9%**	15.8%
	JVs	**37.5%**	46.4%

On an underlying basis

*including full period effect of Avincis acquisition

Income Statement

Net finance cost - £39.4m

- Group interest reflecting refinancing
- JVs reflect sale of BSFs and swap values
- IAS 19 as expected

Tax rate 17.0% this year and next

EPS +11%

- Operating profit FX: -£8m
- Sale of Lewisham: +£7.5m

Dividend +10%

		H1 15/16 (£m)	H1 14/15 (£m)	Change
Total revenue		2,349.2	2,103.2	+12%
Operating profit		253.0	239.5	+6%
Operating margin		10.8%	11.4%	
Net finance costs	Group	**(26.8)**	(31.4)	
	JV	**(10.0)**	(15.6)	
	IAS 19	**(2.6)**	(5.5)	
	total	**(39.4)**	(52.5)	
Profit before tax		213.6	187.0	+14%
Tax		(36.3)	(33.7)	
Effective rate		17.0%	18.0%	
Profit after tax		177.3	153.3	+16%
EPS		34.5	31.0	+11%
Interim dividend		6.05p	5.5p	+10%

On an underlying basis

Cash conversion

Cash conversion in line with guidance

- 112% pre-capital expenditure
- 73% post-capital expenditure

Working capital as expected

Provisions

- net charge of c £2m in first half
- first half cash outflow of £2.2m

Net capex 2.0 x depreciation

- reflecting peak due to planned investment in ERP system and marine infrastructure
- ERP system phase 1 on track

Cash flow	H1 15/16 (£m)	H1 14/15 (£m)
Operating profit	217.4	205.5
Amortisation and depreciation	42.1	39.7
Other non-cash items	8.0	8.5
Working capital (excluding retirement benefits and provisions)	(20.9)	(0.4)
Provisions	(2.2)	(16.3)
Operating cash flow	244.4	237.0
Cash conversion	***112%***	*115%*
Capital expenditure (net)	(85.2)	(87.2)
Operating cash flow after capital expenditure	159.2	149.8
Cash conversion after capital expenditure %	***73%***	*73%*
Capital expenditure : Deprecation	**2.0**	2.2

Net cash flow

Increase in dividends from joint venture
- total expected to be c £20m for the full year

Cash tax continues to benefit from pension payments

Pension deficit contributions weighted to the second half of the year

Free cash flow improving
- pre excess pension payments £118.8m (+42%)
- post excess pension payments £117.6m (+51%)

Net debt to EBITDA improved to 2.1x
- on track to reach 1.9x at the full year

Cash flow	H1 15/16 (£m)	H1 14/15 (£m)
Operating cash flow after capital expenditure	**159.2**	149.8
Interest paid (net)	**(22.7)**	(45.9)
Taxation	**(25.0)**	(26.2)
Dividends from JVs	**7.3**	6.2
Free cash flow pre pensions	**118.8**	83.9
Pensions contributions in excess of income statement	**(1.2)**	(6.2)
Free cash flow post pensions	**117.6**	77.7
Dividends	**(92.9)**	(86.8)
Other	**(14.8)**	(742.1)
Net cash inflow/outflow	**9.9**	(751.2)
Opening net debt	**(1,325.6)**	(533.7)
Closing net debt	**(1,315.7)**	(1,284.9)

Accounting: understanding the business

Underlying numbers provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance

Underlying adjustments:
- JVs
- IFRIC 12
- acquired intangibles
- free cash flow

Business judgements:
- pensions
- provisions
- contract risk
- depreciation

Underlying adjustments

30 Sep 15	Continuing operations – statutory (£m)	JV and associates (£m)	IFRIC 12 income (£m)	Amortisation of acquired intangibles (£m)	Continuing operations – underlying (£m)
Revenue	2,039.4	309.8	-	-	2,349.2
Operating profit	157.2	20.0	15.6	60.2	253.0
Share of profit from JV	17.8	(5.8)	(14.9)	2.9	-
Investment income	0.7	-	(0.7)	-	-
Net finance costs	(29.4)	(10.0)	-	-	(39.4)
Profit before tax	146.3	4.2	-	63.1	213.6
Tax	(18.1)	(4.2)	-	(14.0)	(36.3)
Profit after tax	128.2	-		49.1	177.3

- **JVs**
- **IFRIC 12**
- **Amortisation of acquired intangibles**
- **Other – exceptionals items**

Joint ventures

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Operational joint ventures increasing

- dividends follow profits – subject to short-term phasing (6 - 12months)
- Dounreay dividend due 2nd half FY15/16

Asset joint ventures stable after sale of BSFs

- MFTS Fixed Wing expected shortly

Asset JVs	Dividends in year
ALC	2015/16
Helidax	2015/16
Ascent	2017/18
AirTanker	2017/18

Total dividends for full year 2015/16: c £20m

	H1 15/16 (£m)		H1 14/15 (£m)	
	Asset JV	Operational JV	Asset JV	Operational JV
Operating Profit	**8.5**	**11.5**	8.9	5.7
IFRIC 12	**14.9**	**-**	18.7	-
Total underlying profit	**23.4**	**11.5**	27.6	5.7
Finance costs	**(10.0)**	**-**	(15.6)	-
Profit before tax	**13.4**	**11.5**	12.0	5.7
Tax	**(1.6)**	**(2.6)**	(2.7)	(1.3)
Profit after tax	**11.8**	**8.9**	9.3	4.4
Dividends	**4.0**	**3.3**	5.7	0.5

Pensions update

Benefit changes in Marine schemes from June 2015 (October 2014 for Babcock International scheme)

- salary cap
- pension increases capped
- retirement age increased in line with state pension age

Income statement charge reduced due to changes made

Continued strategic hedging of interest and inflation rates used to reduce volatility

Deficit reduced due to increase in credit spreads and deficit recovery contributions

	30 Sept 15	31 Mar 15	30 Sept 14
Assets	**3,766.3**	3,938.0	3,462.6
Obligations	**(3,879.1)**	(4,106.8)	(3,733.3)
Net deficit	**(112.8)**	(168.8)	(270.7)

Income statement	30 Sept 15	30 Sept 14
Operating profit	**23.2**	23.4
Net interest costs	**2.6**	5.5
Total	**25.8**	28.9

Key assumptions	30 Sept 15	30 Sept 14
Discount rate	**3.8%**	4.1%
Inflation (CPI)	**3.0%**	3.2%

Provisions

Half year net charge c £2m

- average of last five years underlying operating profit*
  - less than 1% cumulative net charge
  - 5% of cash utilisation
  - utilisation c £5m pa on Avincis (MCS) operating leases

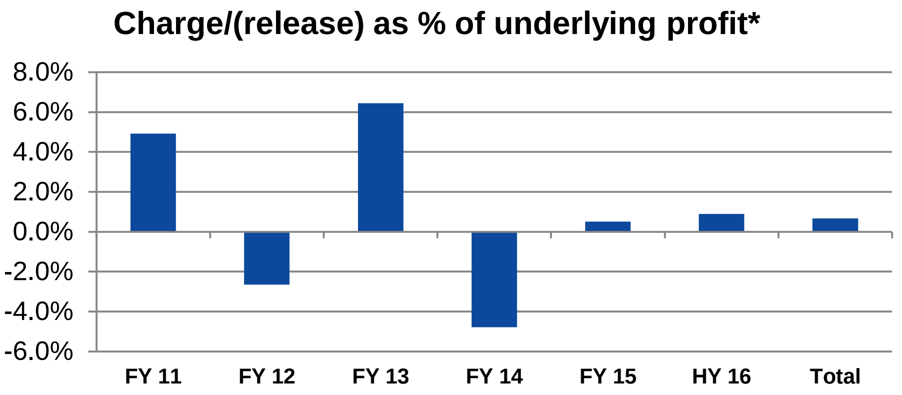
Stable provision balance as percentage of revenue

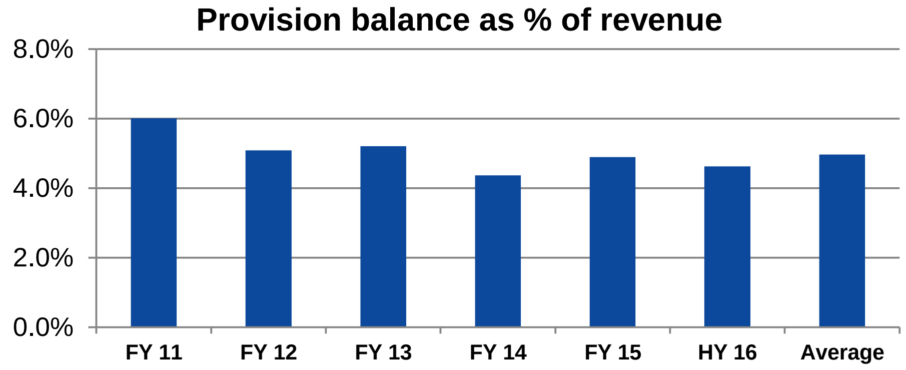
Provisions made as required by accounting standards and on the assumption they will be needed

- contract costs, property, personnel, warranty, onerous leases, acquisition, disposals

Percentage of sales reflects our business as engineering support services company

- lower provision level than typical for an engineering company or manufacturer
- higher provision level than typical for a non-engineering support services business





* excluding JVs , see appendix

Order book: reducing exposure to risk

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Contract by type	Jan 2014	Aug 2015
Target cost/cost reimbursable	43%	58%
Fixed price	57%	42%

Preferred position a mix of contract types: balances risk and reward

Target cost/cost reimbursable: increased focus on total programme management, pain/gain share, lower risk, partnership

Fixed price contracts: higher margin achieved reflecting understanding of risks

Robust risk assessment process:

- 7-gate bidding review process: business unit, division, Group
- every contract over £25m or over 5 years reviewed at Group level
- regular review of ongoing contracts at multiple levels including Group
- very few loss making contracts

Order book

Order book remains at record level of £20 billion

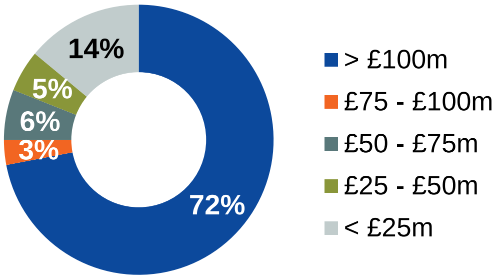
£2bn order intake in period from:
- new contracts
- organic growth within existing contracts, eg Dounreay, DSG
- c £0.5bn of revenue not through order book

New contracts include:
- HMCS Corner Brook
- Rampion offshore wind farm substation
- helicopter support services in Mozambique & Ghana
- Coleraine to Derry rail resignalling contract
- rotary wing engineering services and support contract
- Worcestershire County Council
- training contracts (BMW*, Oman, Skills2Learn, Network Rail*)
- Languedoc helicopter emergency services
- marine refit programme

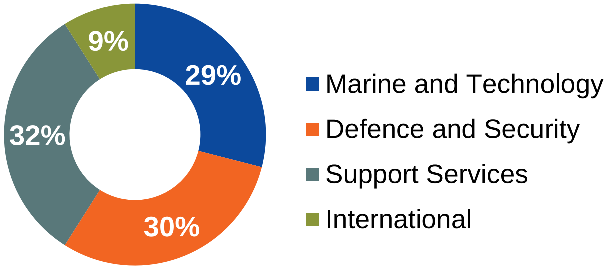
Excellent revenue visibility
- 92% for 2015/16
- 60% for 2016/17

**rebids*

Order book by value



Order book by division



Financial summary

Strong revenue growth
- significant growth in existing contracts
- DSG progressing well

Strong financial position
- consistent cash conversion delivered
- net debt/EBITDA on track as guided

Excellent revenue visibility
- order book maintained at record levels
- sustained pipeline of opportunities
- stable win rates

Continued growth and visibility

Peter Rogers, Group Chief Executive

Strong strategy and business model

The right strategy and business model, suited to market environments

- market leading positions
- track record of delivering complex and critical programmes and projects
- understanding the customer and its contract requirements
- high barriers to entry
- depth of engineering and technical knowledge, expertise and experience
- long-term contracts with embedded growth potential
- balanced portfolio of risk and reward
- geographic reach

Excellent visibility of growth

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Key markets remain positive

	UK	International
Defence	• visibility of work from ongoing marine programmes • further outsourcing of non-marine activities • marine infrastructure investment • DSG - opportunities • consultancy/cyber growth • training: defence	• training: defence • large marine programmes: Canada, Australia • non-marine defence
Civil	• nuclear: new build, Sellafield • airport services • training: civil • fleet management • rail electrification	• training: civil • nuclear: training, decommissioning, new build • fleet management • airport services

Breadth of business provides opportunities and limits exposure to risk

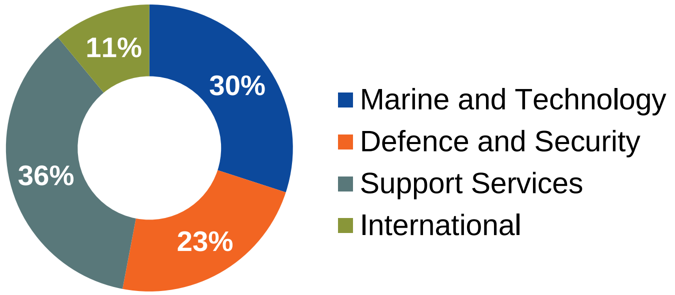
Bid pipeline

£10.5 billion bid pipeline provides further opportunities for growth
- £2.5 billion of opportunities added to the bid pipeline in the period

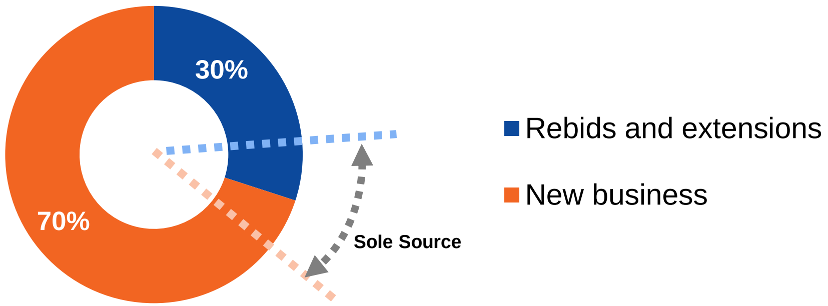
H1 Group win rates
- new bids c 40%
- rebids c 90%

Contracts over £100m make up over half of the pipeline

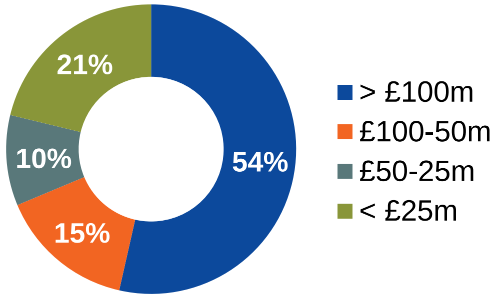
Bid pipeline by division



Pipeline by contract type



Pipeline by contract size



Growth opportunities

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Marine and Technology

UK's largest naval support business and leading provider of through-life engineering support services to the Royal Navy

Short term

- Type 23 and Vanguard refit and life-extension
- Astute refit
- equipment procurement packages
- Australian warship refit joint venture

Medium term

- UK Submarine Dismantling
- nuclear infrastructure site modification
- Successor
- Canada and Australia

Defence and Security

UK's leading provider of military training and equipment support

Short term

- MFTS Fixed Wing
- Phoenix II vehicle support
- extension of support to British Army in Germany
- MFTS Rotary Wing training
- Defence Fire and Rescue
- DSG – capability improvements, moving towards full availability contract

Medium term

Growing military training and equipment management opportunities:

- Continental Europe *(air and sea training)*
- Middle East *(training and fleet availability)*
- Canada *(training and support)*

Growth opportunities

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Support Services

Key support provider of complex and critical support services to civil customers

Short term

- nuclear decommissioning growth (Dounreay, Magnox & Sellafield)
- asset management - Metropolitan Police fleet management
- rail – electrification and track renewal

Medium term

- nuclear
  - Hinkley
  - other new build
  - Overseas (Japan)
- international
  - fleet management,
  - training
  - airports

International

One of the world's top 3 providers of mission-critical operations.
Leading supplier of engineering support services in South Africa

Short term

- MCS: technology, aircraft and scope upgrades for existing customers
- MCS: new geographies/services
- SA: growing equipment and trucks market share (Terex)
- SA: power generation support opportunities

Medium term

- Babcock growth in Continental Europe
- Mozambique/Ghana expansion of business activities
- continue to extend Babcock business in Southern Africa
- commodity sector recovery

Summary: growth and visibility

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Maintained strong performance in first half

Excellent visibility of future revenues

A number of significant awards expected in the next 6 months

Replenished pipeline underpins long-term growth opportunities

Confident that we will deliver full year results in line with our expectations for continued growth

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Questions?

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Appendix

Appendix 1
Underlying segmental analysis

		Revenue (£m)		Operating profit (£m)		Operating margin (%)	
		H1 15/16	H1 14/15	H1 15/16	H1 14/15	H1 15/16	H1 14/15
Marine and Technology	Group	**792.8**	716.2	**84.9**	76.5	**10.7**	10.7
	JV	**10.2**	8.9	**1.5**	1.2	**14.7**	13.5
	total	**803.0**	725.1	**86.4**	77.7	**10.8**	10.7
Defence and Security	Group	**361.6**	353.5	**37.9**	35.4	**10.5**	10.0
	JV	**42.4**	60.9	**22.7**	23.1	**53.5**	37.9
	total	**404.0**	414.4	**60.6**	58.5	**15.0**	14.1
Support Services	Group	**476.2**	469.9	**38.2**	33.0	**8.0**	7.0
	JV	**253.2**	89.2	**9.2**	7.7	**3.6**	8.6
	total	**729.4**	559.1	**47.4**	40.7	**6.5**	7.3
International	Group	**408.8**	401.8	**60.1**	62.8	**14.7**	15.6
	JV	**4.0**	2.8	**1.5**	1.3	**37.5**	46.4
	total	**412.8**	404.6	**61.6**	64.1	**14.9**	15.8
Unallocated	Group			**(3.0)**	(1.5)		
Total	Group	**2,039.4**	1,941.4	**218.1**	206.2	**10.7**	10.6
	JV	**309.8**	161.8	**34.9**	33.3	**11.3**	20.6
	total	**2,349.2**	2,103.2	**253.0**	239.5	**10.8**	11.4

Appendix 2

Statutory to underlying reconciliation

All values in £m		Continuing operations – statutory	JV and associates			IFRIC 12 income	Amortisation of acquired intangibles	Continuing operations – underlying
			Revenue and operating profit	Finance costs	Tax			
30 Sep 15	Revenue	2,039.4	309.8	-	-	-	-	2,349.2
	Operating profit	157.2	20.0	-	-	15.6	60.2	253.0
	Share of profit from JV	17.8	(20.0)	10.0	4.2	(14.9)	2.9	-
	Investment income	0.7	-	-	-	(0.7)	-	-
	Net finance costs	(29.4)	-	(10.0)	-	-	-	(39.4)
	Profit before tax	146.3	-	-	4.2	-	63.1	213.6
	Tax	(18.1)	-	-	(4.2)	-	(14.0)	(36.3)
	Profit after tax	128.2	-	-	-	-	49.1	177.3
30 Sep 14	Revenue	1,941.4	161.8	-	-	-	-	2.103.2
	Operating profit	162.6	14.6	-	-	19.4	42.9	239.5
	Share of profit from JV	10.6	(14.6)	15.6	4.0	(18.7)	3.1	-
	Investment income	0.7	-	-	-	(0.7)	-	-
	Net finance costs	(36.9)	-	(15.6)	-	-	-	(52.5)
	Profit before tax	137.0	-	-	4.0	-	46.0	187.0
	Tax	(19.1)	-	-	(4.0)	-	(10.6)	(33.7)
	Profit after tax	117.9	-	-	-	-	35.4	153.3

Appendix 3

Exchange rate movements

	Effect on revenue (£m)			Effect on underlying operating profit (£m)			Effect on profit before tax (£m)			Average rates for H1 15/16	Average rates for H1 14/15	Average rate for FY14/15
Change	1%	5%	10%	1%	5%	10%	1%	5%	10%			
EUR	3.1	15.5	31.0	0.6	3.0	6.0	0.4	2.0	4.0	1.40	1.25	1.28
ZAR	2.7	13.5	27.0	0.2	1.2	2.4	0.2	1.1	2.3	19.28	17.80	17.80
CAD	1.1	5.5	11.0	0.1	0.5	0.9	0.1	0.5	0.9	1.96	1.83	1.84

Appendix 4
Cash flow reconciliation

	H1 15/16 £m	H1 14/15 £m
Cash generated from operations	**235.7**	216.8
Retirement benefit contributions in excess of income statement	**1.2**	6.2
Exceptional items – acquisition costs	**-**	14.0
Profit on disposals of JVs	**7.5**	-
Operating cash flow	**244.4**	237.0

Appendix 5

Provisions

	Total/ Average	H1 16	2015	2014	2013	2012	2011
P&L charged/(released) (£m)	11.9	**1.9**	2.3	(15.2)	18.3	(7.7)	12.3
Charge/(release) as % of underlying profit	0.7%	**0.9%**	0.5%	(4.8%)	6.4%	(2.7%)	4.9%
Provision balance (£m)		**189.7**	195.6	145.1	157.8	145.0	154.1
Provision balance as % of revenue		**4.6%**	4.9%	4.4%	5.2%	5.1%	6.0%
Underlying profit excluding JVs (£m)		**217.4**	445.9	317.2	284.2	290.2	250.1
Movement in provisions per cash flow (£m)		**(2.2)**	(14.3)	(31.3)	(11.5)	(16.0)	(16.8)
Provisions cash flow as % of underlying profit	5%	**1%**	3%	10%	4%	6%	7%

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