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Full Year Results

for year ended 31 March 2015

18 May 2015

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Agenda

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

2015 – another year of growth

Growth – organically and from acquisitions

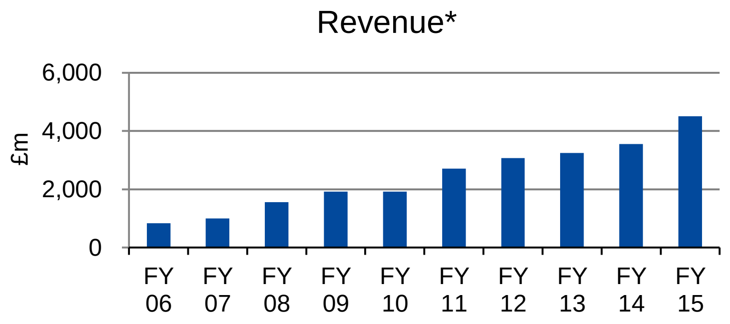
- 27% total revenue growth
  - 12% organic revenue growth
- 37% total operating profit growth
  - 11% organic operating profit growth

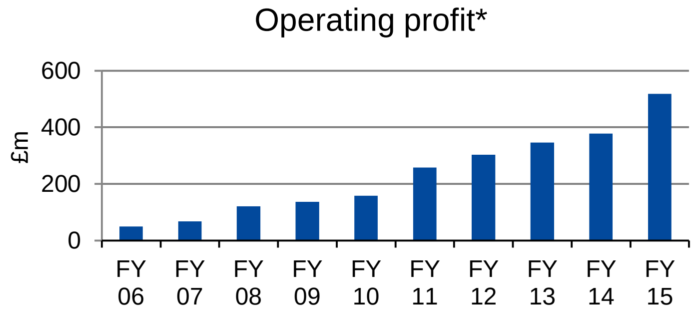
Successful integration of acquisitions and new contracts strengthen underlying business creating further opportunities for growth

Increased visibility from record order book

Focused on generating value for shareholders

- + 10% EPS growth
- + 10% proposed final dividend of 23.6p





* Underlying – see Appendix 2

Financial and operational review

Franco Martinelli - Group Finance Director

Income statement

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Organic revenue growth 12% at constant exchange rate

Organic profit growth 11% at constant exchange rate

Operating margins increase to 11.5% due to MCS acquisition

Interest

- Group interest – £5m per month
- jv interest
  - AirTanker assets into service
  - Swaps valuations - £2m
  - 2015/16 charge c £25m

Tax

- tax rate stable as UK rate benefits from IP/R&D and overseas effective rate incorporated

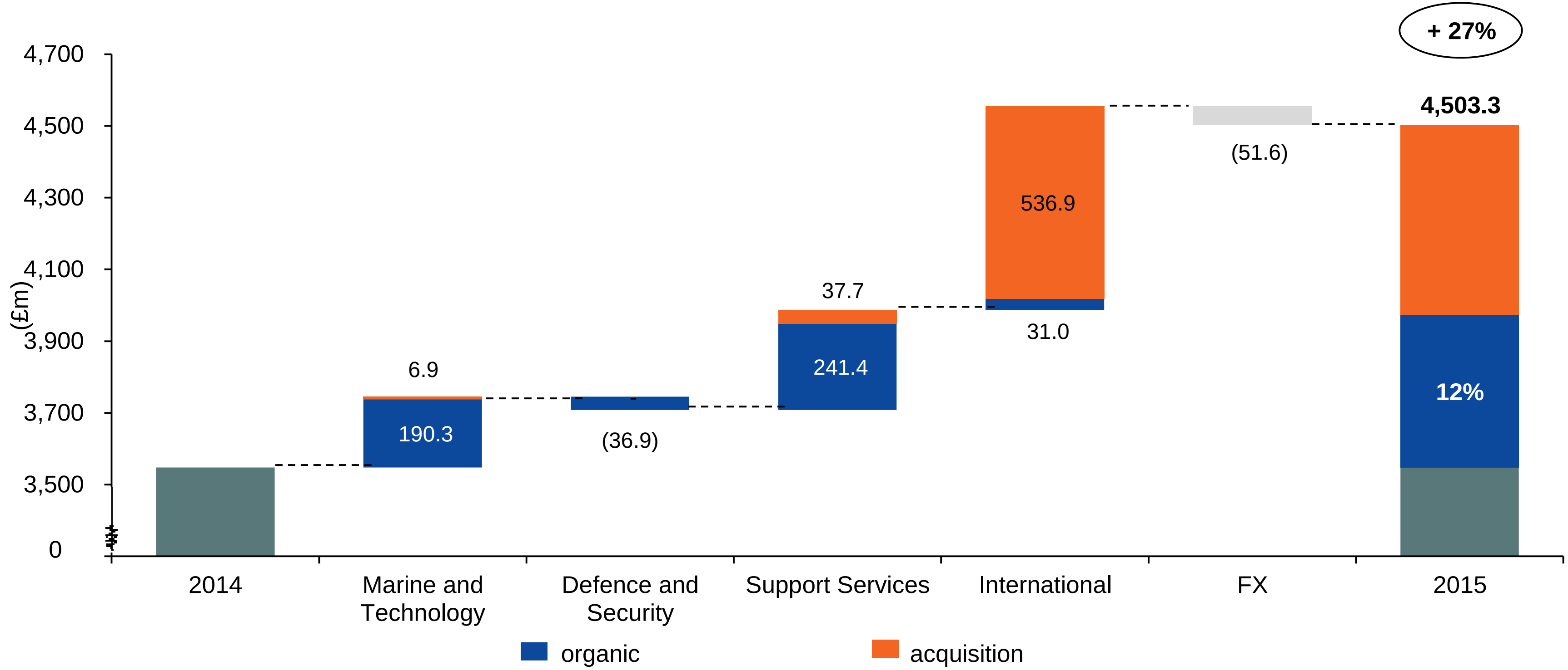
EPS

- underlying growth of 10.3%

	FY 15 £m	FY 14 £m	Change %
Revenue	**4,503.3**	**3,547.6**	+ 27%
Operating profit	**518.7**	**377.9**	+ 37%
Operating margin	***11.5%***	***10.7%***	
Net finance cost			
Group	**(59.0)**	**(25.8)**	
JV	**(31.0)**	**(25.1)**	
IAS 19	**(11.0)**	**(10.9)**	
	(101.0)	**(61.8)**	
Profit before tax	**417.7**	**316.1**	+ 32%
Tax	**(74.3)**	**(55.4)**	
Effective rate	***17.8%***	***17.5%***	
Profit after tax	**343.4**	**260.7**	+ 32%
EPS**	**68.5**	**62.1**	+10%
Proposed full year dividend**	**23.6p**	**21.4p**	+10%

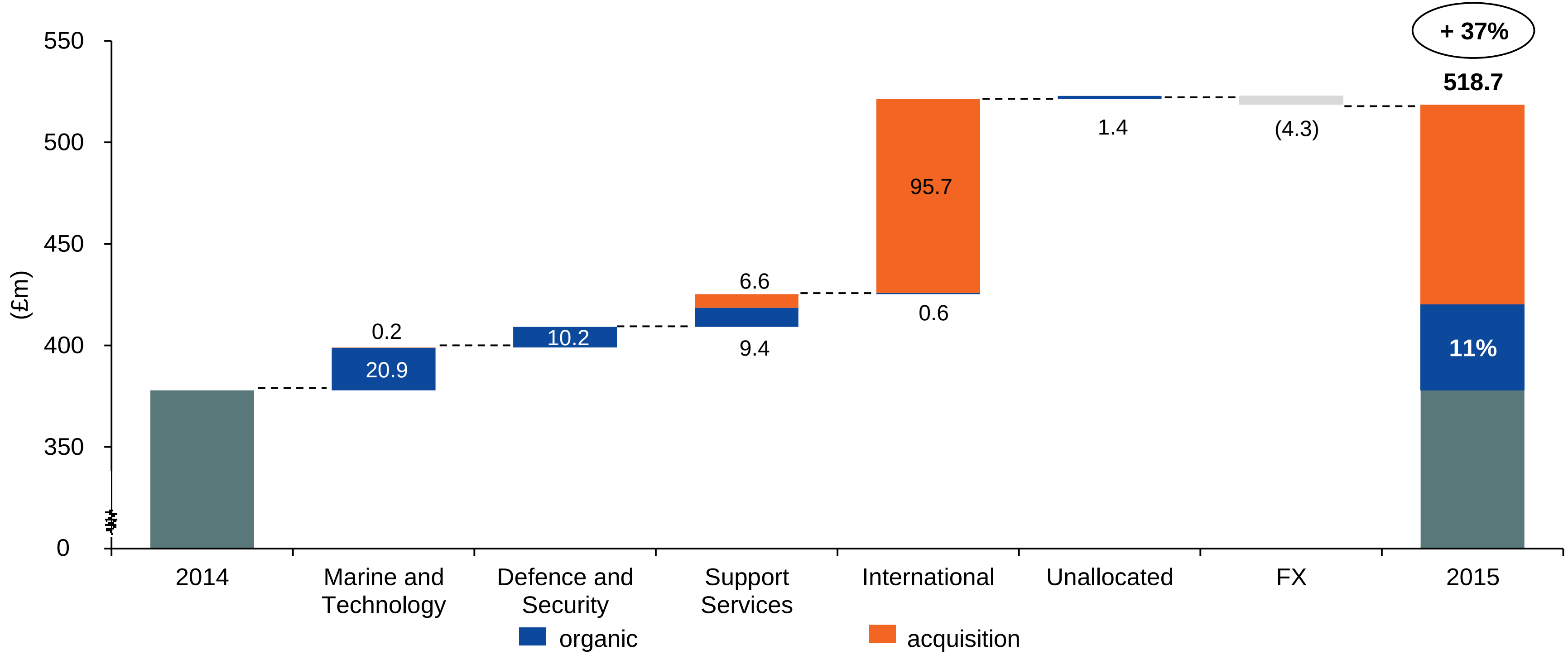
* Underlying ** adjusted for Rights Issue

Revenue growth*



* underlying – see Appendix 2

Operating profit growth*



* underlying – see Appendix 2

Marine and Technology

Another successful year

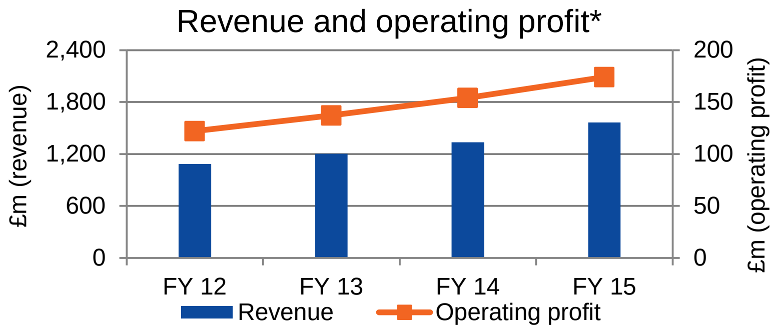
- strong market positions delivered consistent growth from existing contracts and programmes

14% organic growth in both revenue and operating profit driven by

- warship and submarine support activities increase in UK and Australia with a small decline in Canada
- increase in commercial activities and liquid gas transportation systems
- continued increase in QEC volumes

Margins stable, as forecast, c 11%

	FY 15 £m	**FY 14 £m**	**Change**
Revenue*	1,562.5	1,377.3	+ 13%
Operating profit*	173.9	153.9	+ 13%
Operating margin*	**11.1%**	**11.2%**	



*underlying – see Appendix 1

Defence and Security

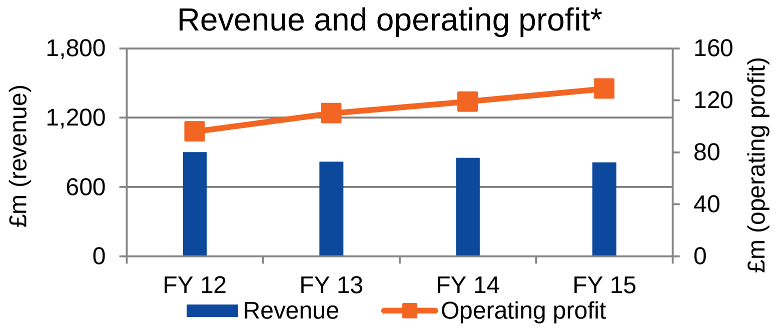
9% increase in profit

- revenue and margins reflect Regional Prime contracts largely completed 31 January 2015
- AirTanker milestones achieved
- resultant margins increased to 15.8%

DSG win consolidates position as major vehicle support partner to the MoD

- contract started well
- creates platform for growth
  - new opportunities already visible

	FY 15 £m	FY 14 £m	Change
Revenue*	812.8	852.6	- 5%
Operating profit*	128.7	118.6	+ 9%
Operating margin*	**15.8%**	**13.9%**	



*underlying – see Appendix 1

Support Services

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Major contract wins drive strong growth

23% organic revenue growth

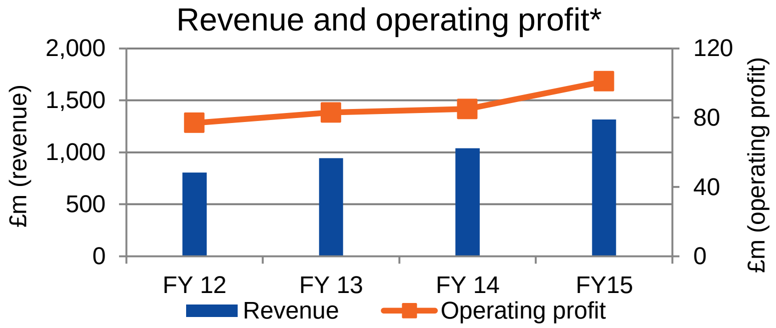
- strong performance from Cavendish Nuclear
  - Magnox start 1 September 2014
- growth in Critical Services
- offsets lower volumes in Network Engineering

19% increase in operating profit

- includes £8.5m profit from Greenwich BSF sale and £4m overtime holiday pay provision
- Dounreay margins increased but offset by low margins on early stages of Magnox contract
- 2015/16 margin c 7% - BSF sales/Magnox

New acquisitions have started well and strengthened divisional capabilities

	FY 15 £m	FY 14 £m	Change
Revenue*	1,316.4	1,040.1	+ 27%
Operating profit*	100.9	85.1	+ 19%
Operating margin*	**7.7%**	**8.2%**	



*underlying – see Appendix 1

International

MCS

Delivering results in line with our expectations

- revenue – £536.9m
- operating profit – £95.7m
- margin – 17.8%
- fair value benefits: + £5m onerous leases
  (as expected) + £4m depreciation

22% revenue growth from prospectus at constant exchange rates

Integration complete and no surprises

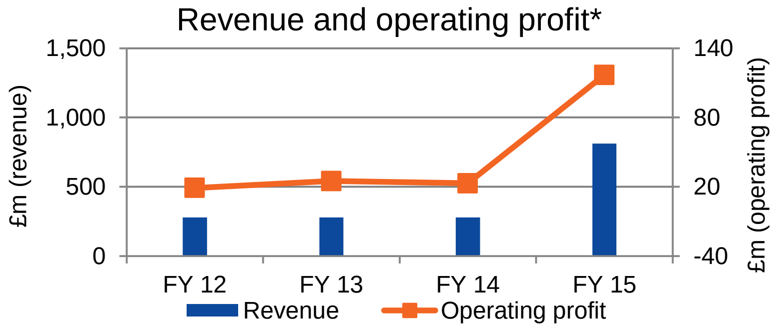
Win rates

- c 55% new bids
- > 90% renewals

MCS oil and gas markets within parameters forecast

- bidding activity continues

	FY 15 £m	FY 14 £m
Revenue*	811.4	277.6
Operating profit*	116.8	23.2
Operating margin*	**14.4%**	**8.4%**



*underlying – see Appendix 1

International

South Africa

10.5% revenue growth in local currency

- flat in Sterling
- growth in equipment and Powerlines offsets early weakness in crane hire
- power generation support stable

15% operating profit growth in local currency

- margin improved to 9%
- operational gearing particularly in Powerlines activities and overhead control

	FY 15 £m	FY 14 £m
Revenue*	811.4	277.6
Operating profit*	116.8	23.2
Operating margin*	**14.4%**	**8.4%**

*underlying – see Appendix 1

Cash conversion

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Achieved cash conversion target of over 100% pre-capex

- 83% post-capex

Working capital

- consistent with growth in revenue
- includes £14m of provision movements

Net capital expenditure includes

- £60m for MCS assets
- £10m Group wide back-office ERP system

Capex 1.7 x depreciation

- 2015/16 peaks at 2.0 x depreciation as investment in ERP system increases

Cash flow	FY 15 £m	FY 14 £m
Operating profit	**445.9**	317.2
Amortisation and depreciation	**78.5**	47.6
Other non-cash items	**16.7**	13.9
Working capital (excluding retirement benefits)	**(37.7)**	(51.3)
Operating cash flow	**503.4**	327.4
Cash conversion	***113%***	*103%*
Capital expenditure (net)	**(135.0)**	(68.2)
Operating cash flow after capital expenditure	**368.4**	259.2
Cash conversion after capital expenditure %	***83%***	*82%*

Net cash flow

Dividends from jvs increasing

Cash tax benefiting from pension payments

Pension contributions reducing

c £500m Euro held borrowings benefit from exchange movement

Cash flow	FY 15 £m	FY 14 £m
Operating cash flow after capital expenditure	**368.4**	259.2
Interest paid (net)	**(73.8)**	(31.9)
Taxation	**(46.1)**	(55.8)
Dividends from jvs	**19.5**	4.8
Free cash flow	**268.0**	176.3
Acquisitions and disposals net of cash/debt acquired	**(2,023.6)**	(63.1)
Issue of shares	**1,077.4**	–
Pensions contributions in excess of income statement	**(43.9)**	(47.2)
Exceptional items	**(24.2)**	(0.7)
Dividends paid	**(117.0)**	(101.0)
Exchange difference/other*	**71.4**	1.5
Net cash outflow	**(791.9)**	(34.2)
Opening net debt	**(533.7)**	(499.5)
Closing net debt	**(1,325.6)**	(533.7)

* Includes investments in joint ventures and movement in own shares

Cash performance

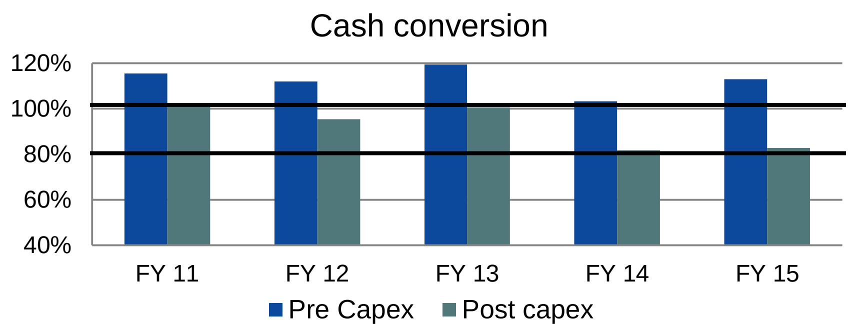
Generation of cash and cash conversion KPI remains a focus for Group

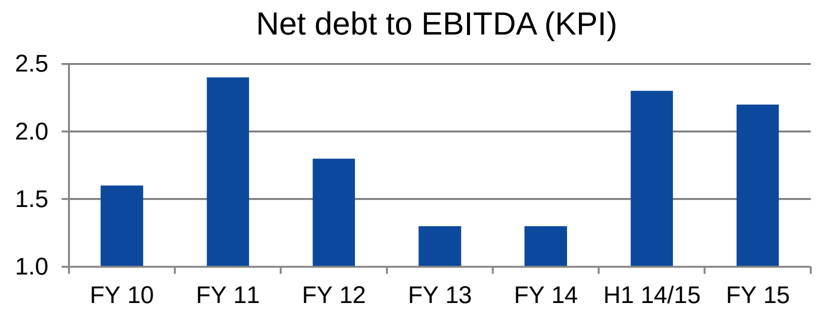
- consistently achieved above cash conversion target
  - > 100% pre-capital expenditure
- c 80% post-capital expenditure
- MCS does not change Group cash target

Working capital balance continues to be stable despite growth

Net debt closed at £1,326m

- net debt to EBITDA 2.15 x
  (after c £200m of acquisitions)
- March 16 expect c 1.9 x





Joint ventures

	FY 15		FY 14		FY 13	
	Asset jv £m	Operational jv £m	Asset jv £m	Operational jv £m	Asset jv £m	Operational jv £m
Profit	53.3	18.1	50.1	9.1	53.0	6.7
Profit after tax	14.3	15.1	14.0	6.9	13.0	5.0
Dividends	8.3	11.2	1.3	3.5	5.1	2.0

Asset jvs

- AirTanker Ltd, Ascent, ALC, Lewisham BSF, Greenwich BSF, Helidax, Holdfast Training
- longer term investments

Operational jvs

- Cavendish Dounreay Partnership, ABC Electrification, AirTanker Services, Cavendish Fluor Partnership, Naval Ship Management (Aus)
- produce cash short term

AirTanker dividends start 2018

Provisions

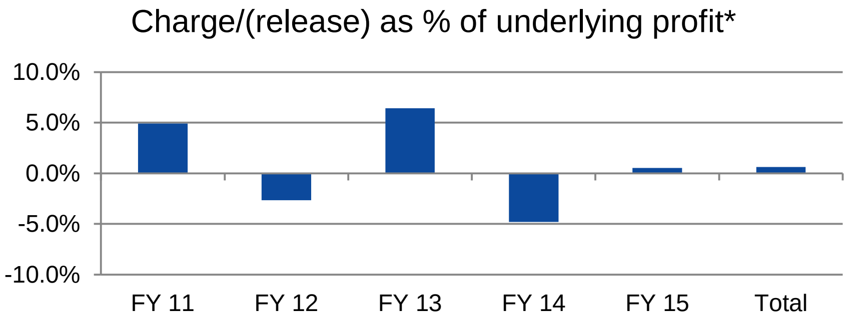
Provisions made as required by accounting standards and on the assumption they will be needed

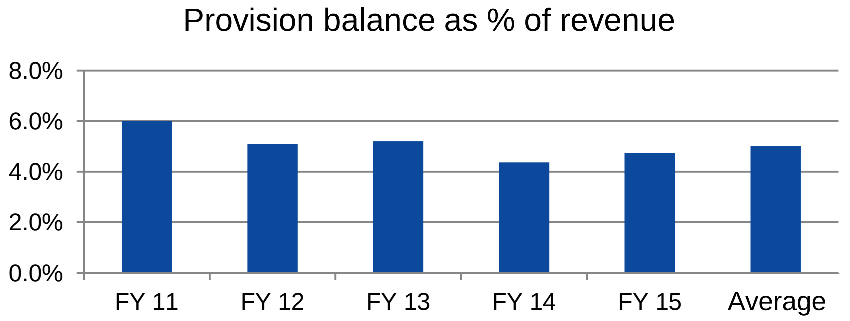
- contract costs, property, personnel, warranty, onerous leases, acquisition, disposals

Over last 5 years average on group underlying operating profit*

- less than 1% cumulative net charge
- c 5% of cash utilisation

Provision balance as percentage of revenue remains stable





* excluding jvs

Pensions update

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Continued hedging of inflation and interest rate to mitigate volatility and offset fall in bond yields

Strong equity performance/deficit contributions reduce deficit

Babcock International Group Scheme key changes

- salary cap from 1 October 2014
- employee contributions increasing to 6% by 2017
- match retirement age to increasing state retirement age

Marine and Technology schemes

- consultations advanced
- implementation expected 1 June 2015

	FY 15	H1 14/15	FY 14
Assets	3,938.0	3,462.6	3,220.1
Obligations	(4,106.8)	(3,733.3)	(3,487.8)
Net deficit	(168.8)	(270.7)	(267.7)

Income statement	FY 16	FY 15
Operating profit	50.7	43.9
Net interest costs	5.2	11.0
Total	55.9	54.9

Key assumptions	FY 15	FY 14
Discount rate	3.4%	4.5%
Inflation (CPI)	1.9%	2.1%

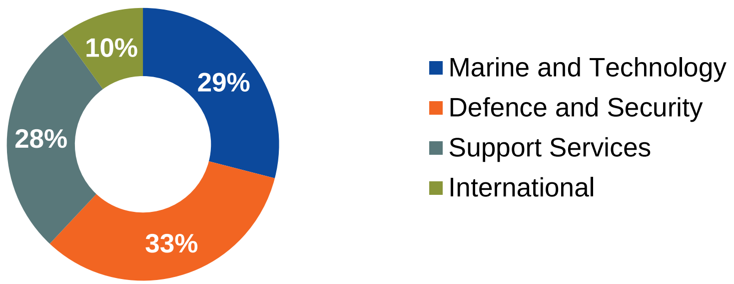
Order book

Order book increased to £20bn
- record for the Group

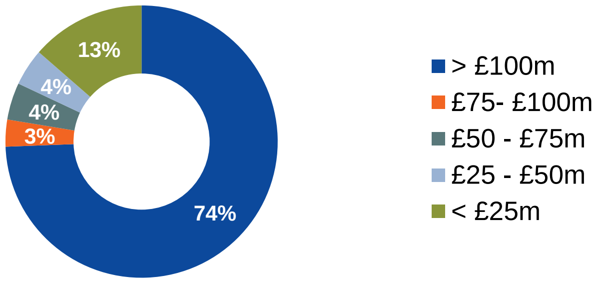
£12bn of order intake during the year include
- Magnox £2.5bn – 14 years
- DSG £2bn – 10 years + 5 years
- MSDF £2bn – 5 years + naval bases to 2025
- EDF Energy Life Time Enterprise Agreement £600m – c 16 years
- LFB £300m – c 21 years
- £900m of short bid cycle contracts

Provides excellent visibility
- over 80% for 2015/16
- 50% for 2016/17

Order book by division



Order book by value



Summary and outlook

Achieved strong growth in revenue and operating profit
- continuing to deliver double digit organic growth

Cash key priority for the Group
- achieved above cash conversion target
- net debt to EBITDA on track

Excellent visibility from record order book

Outlook
- expect further good progress in 2015/16

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Well positioned for growth

Peter Rogers, Group Chief Executive

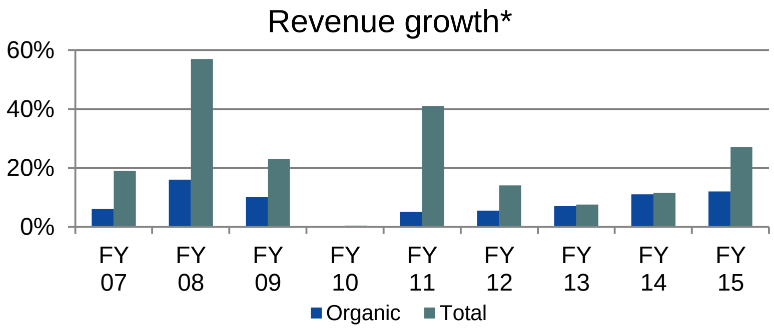
Strong track record of growth

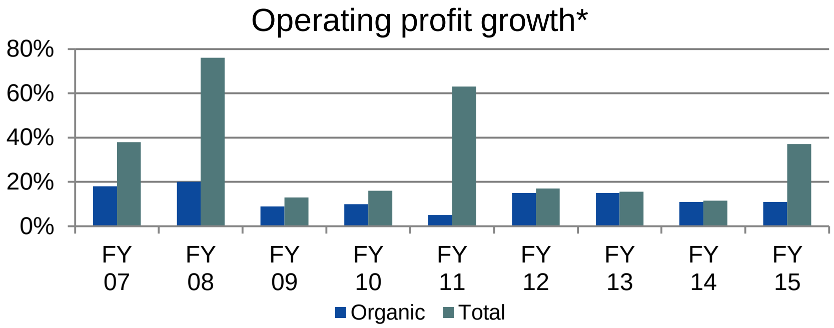
Consistent strategy drives organic growth

- Since 2006:
  - 9% average organic revenue growth
  - 13% average organic operating profit growth
- **FY 14/15 organic growth - 12% revenue and 11% operating profit**

Acquisitions strengthen platform for growth

- add capabilities
- add geographies
- consolidate market positions
- establish stronger positions to bid large scale opportunities





* At constant FX rates

Our markets remain positive

No change to market conditions and requirements

- continuing focus on partners who can be trusted to deliver
- ‘austerity’ drives focus on cost reduction – defence and civil
- re-positioning of ‘front line’
- need for availability of assets or life-extensions

Limited change to contract expectations

- unchanged risk and reward structure
- no increased requirement for capital (opportunistic)
- no changes to financial expectations of existing contracts

Aligned to market conditions

Strategy and business model ideally suited to this environment

- track record of delivering operational efficiencies and sharing financial benefits
- successful delivery of complex and critical programmes and projects
- scale of resources and depth and breadth of specialist, engineering and technical knowledge
- understanding the customer and its contract requirements

Marine and Technology

3 year average organic growth – 12%

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

- delivering to all levels across the entire fleet of nuclear submarines and surface warships
- unique facilities/skills to deliver wide array of cradle-to-grave engineering services
- unmatched knowledge, expertise and experience in naval and nuclear engineering
- consulting businesses have strong niche positions

Momentum being driven by increasing demands from customer

Short-term

- increased pressure on fleet availability in UK driving refit and life-extension programmes and through-life requirements:
  - Type 23
  - Vanguard
- opportunities to develop new services
  - equipment procurement packages
- commercial activities – oil and gas

Medium-term

- UK Submarine Dismantling Programme
- nuclear infrastructure site modification to support increasing work load and future programmes
- Successor programme
- increased commercial activities
- growing presence in Canada and Australia

Defence and Security

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UK's leading provider of military training and equipment support

- major support partner to all three Armed Forces
- involvement in major long-term programmes with potential for growth
- well positioned for future transformation programmes in the UK

Consolidating current position to explore future opportunities in UK and overseas

Short-term

- DSG – growth in core contract
- build on position as No 1 training provider to the MoD:
  - Army Strategic Training Partnership
  - UK Fixed Wing training
  - UK Rotary Wing training
- build on civil capabilities
  - Defence Fire and Rescue

Medium-term

- international growth using UK reference sites and established relationships focusing on military training and equipment management in:
  - Continental Europe
  - Middle East

Support Services

3 year average organic growth – 16%

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

- UK leader in nuclear decommissioning and generation support
- detailed knowledge and expertise in managing critical assets, delivering complex programmes and training in the UK
- established long-term customer relationships and contracts with the London Fire Brigade, Heathrow Airport, Network Rail and British Airways

All the business units have organic growth opportunities

Short-term

- build on expertise in:
  - nuclear decommissioning - Dounreay, Magnox, Chalk River (Canada)
  - rail – electrification and track renewal
  - education – school effectiveness services
- integrate and develop acquired capabilities – eg. MacNeillie

Medium-term

- build on technical expertise and reputation for new opportunities in nuclear decommissioning (Sellafield) and nuclear new build
- grow fleet management
- HS2 spin off
- use MCS footprint
- airport services internationally
- international training support activities in oil + gas and apprenticeship

International

3 year average organic growth – 14%

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

- 177 bases in 10 countries and 15 aeronautical maintenance centre
- HEMS market leader in France, Italy, Spain, Australia, Portugal and the UK
- strong South African management team growing and developing support services business

Building on reputation to create opportunities

Short-term

- build on expertise to win new contracts:
  - oil and gas – forming strategic partnership with existing clients (Repsol, ENI); new opportunities with new geographies (Mozambique)
  - Fomedec, Pelican projects
- technology growth - contract growth through increasing capability/technology (firefighting)
- build on expertise to improve market share in the equipment and support services (power generation) sector in SA

Medium-term

- take advantage of local presence, reputation and market knowledge to grow Babcock footprint in Continental Europe
- build on expertise to win new contracts :
  - emergency services – using MCS relationships in current markets and UK reference sites (firefighting)
  - oil and gas – forming strategic partnership with existing clients (BP, EnQuest); new opportunities with new customers (South East Asia)
- continue to extend Babcock business in SA

A strong platform for growth

Current market environment positive
- austerity an opportunity not a threat

The right strategy and business model
- market leading positions
- high barriers to entry
- track record of delivery – ‘trusted to deliver’ reputation
- depth of engineering and technical knowledge and expertise
- long-term contracts with embedded growth potential

Post MCS acquisition enhanced capability, diversified customer base and broader geographical reach

Well positioned for growth

Bid pipeline

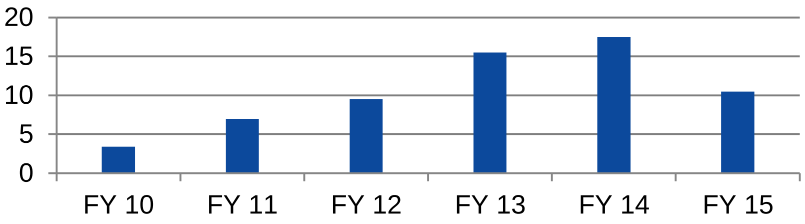
Bid pipeline £10.5bn*
- establishing a normal level after exceptional 2013 and 2014

£12 billion added to order book during year
- demonstrates ability to convert

Win rate for FY 2014/15
- new bids c 40% and rebids over 90% (excluding NGEC)

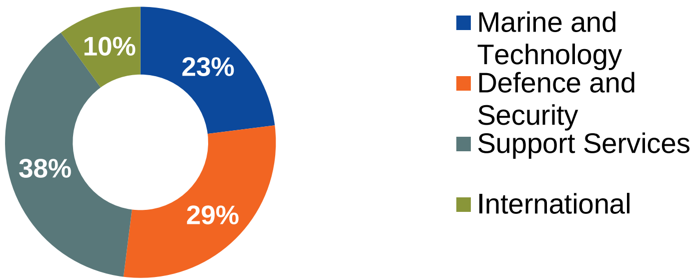
70% of pipeline is new business

Bid pipeline history

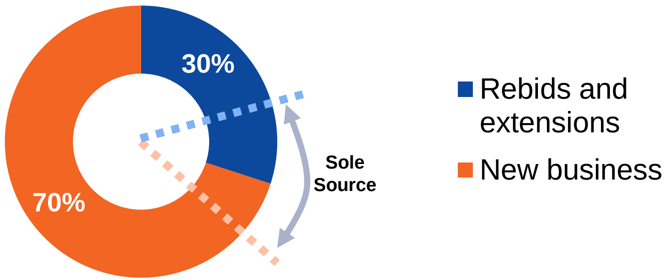


*Includes c £1bn of opportunities from MCS
** 20% of pipeline is sole source/preferred bidder

Bid pipeline by division



Pipeline by contract type**



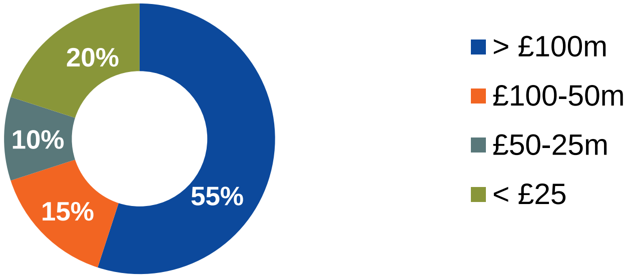
Bid pipeline continuing

Balanced supply of significant contracts
- pipeline activity high
- contracts significant in size
- win rates translate to success

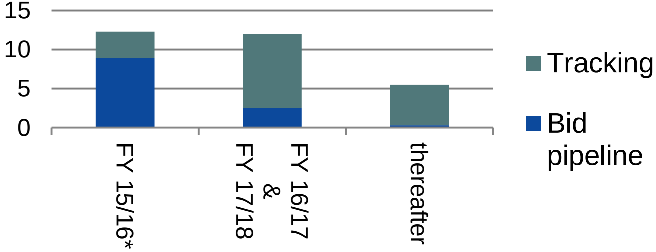
Contracts over £100m in value include
- DSG growth, Phoenix II, MFTS Fixed Wing, Metropolitan Police rebid, Pelican, Chalk River, Vanguard

Tracking pipeline of over £16bn
- expect these opportunities to deliver growth in the medium to long-term

Pipeline by contract size



Pipeline anticipated award dates



* includes preferred bidder

Outlook

We continue to benefit from positive market conditions in both the UK and overseas

Order book continues to provide visibility and certainty of future revenues

The Board remains confident in the long-term prospects for the Group and expects it to make further good progress in the 2015/16 financial year

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Questions?

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Appendix

Appendix 1
Underlying segmental analysis

	Revenue		Operating profit		Operating margin	
	FY 15 £m	FY 14 R £m	FY 15 £m	FY 14 R £m	FY 15 %	FY 14 R %
Marine and Technology						
group	**1,543.6**	1,364.6	**172.0**	152.9	**11.1**	**11.2**
JV	**18.9**	12.7	**1.9**	1.0	**10.1**	**7.9**
total	**1,562.5**	1,377.3	**173.9**	153.9	**11.1**	**11.2**
Defence and Security						
group	**710.6**	736.8	**82.4**	75.4	**11.6**	**10.2**
JV	**102.2**	115.8	**46.3**	43.2	**45.3**	**37.3**
total	**812.8**	852.6	**128.7**	118.6	**15.8**	**13.9**
Support Services						
group	**937.1**	942.0	**80.2**	70.1	**8.6**	**7.5**
JV	**379.3**	98.1	**20.7**	15.0	**5.5**	**15.3**
total	**1,316.4**	1,040,1	**100.9**	85.1	**7.7**	**8.2**
International						
group	**805.1**	277.6	**114.3**	23.2	**14.2**	**8.4**
JV	**6.3**	-	**2.5**	-	**39.7**	**-**
total	**811.4**	277.6	**116.8**	23.2	**14.4**	**8.4**
Unallocated	**0.2**		**-1.6**	-2.9		
Total						
group	**3,996.6**	3,321.0	**447.3**	318.7	**11.2**	**9.6**
JV	**506.7**	226.6	**71.4**	59.2	**14.1**	**26.1**
total	**4,503.3**	3,547.6	**518.7**	377.9	**11.5**	**10.7**

Appendix 2

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)	Exceptional items (£m)	Continuing operations – underlying (£m)
			Revenue and operating profit (£m)	Finance costs (£m)	Tax (£m)					
31 Mar '15	Revenue	3,996.6	506.7							4,503.3
	Operating profit	352.3	35.2			37.6	93.6			518.7
	Share of profit from JV	29.4	(35.2)	31.0	5.0	(36.2)	6.0			-
	Investment income	1.4				(1.4)				-
	Net finance costs	(70.0)		(31.0)						(101.0)
	Profit before tax	313.1	-	-	5.0	-	99.6	-	-	417.7
	Tax	(46.7)			(5.0)		(23.2)	0.6		(74.3)
	Profit after tax	266.4	-	-	-	-	76.4	0.6		343.4
31 Mar '14	Revenue	3,321.0	226.6							3,547.6
	Operating profit	233.1	21.9			38.8	59.2		24.9	377.9
	Share of profit from JV	20.9	(21.9)	25.1	7.0	(37.3)	6.2			-
	Investment income	1.5				(1.5)				-
	Net finance costs	(36.7)		(25.1)						(61.8)
	Profit before tax	218.8	-	-	7.0	-	65.4		24.9	316.1
	Tax	(30.8)			(7.0)		(15.2)	(2.4)		(55.4)
	Profit after tax	188.0	-	-	-	-	50.2	(2.4)	24.9	260.7

Appendix 3

Defined benefit pensions – triennial valuations

	Devonport	Rosyth	BIG	Others	Total
Last valuation date	31 March 2011	31 March 2012	31 March 2013	Various	
Next valuation date	31 March 2014	31 March 2015	31 March 2016	Various	
Surplus/ (Deficit) £m	(108.0)	(103.0)	(125.0)	(28.0)	
Level of funding	90%	83%	89%	91%	
Annual cash contribution from					
• formal valuation £m	32.5	13.9	27.5	9.9	83.8
• longevity swap funding £m	1.8	1.8	0.6		4.2
• prepayment £m					-
Total annual cash contribution £m (to March 2015)	34.3	15.7	28.1	9.9	88.0

Appendix 4
FX

	Effect on revenue £m			Effect on underlying operating profit £m			Effect on profit before tax £m			Average rates for 14/15
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	1.28
ZAR	2.7	13.5	27.0	0.2	1.2	2.4	0.2	1.1	2.3	17.80
CAD	1.1	5.5	11.0	0.1	0.5	0.9	0.1	0.5	0.9	1.84
SEK	0.3	1.5	3.0	0.1	0.3	0.5	0.0	0.1	0.2	11.86

Appendix 5
Cash flow reconciliation

	FY 15 £m	FY 14 £m
Cash generated from operations	426.8	279.5
Retirement benefit contributions in excess of income statement	43.9	47.2
Exceptional items – acquisition costs working capital	24.2	(24.2)
Profit on disposals of jv/exceptional loss	8.5	24.9
Operating cash flow	**503.4**	**327.4**

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