Capital Markets Day - presentation transcript

Wednesday 5 June 2019

Archie Bethel

Chief Executive Officer

Okay, let me welcome you again and welcome those who have now joined us through the webcast. We have just watched a very powerful video that involved input from a number of our customers. Unfortunately, we were unable to broadcast this on the webcast, so I apologise for that. I'd also like to thank our customers who made the contributions to the video and supported us. I'm Archie Bethel, Chief Executive of Babcock, and I'm joined by a number of my senior colleagues who will be presenting to you later and answering your questions.

I'm also joined today by a number of our country leads, so we have the country leads from Australia, from South Africa, from Spain, from Scandinavia, and from Italy. Feel free - they are sitting at the front here and feel free - they are sitting at the front here - feel free during the breaks to speak to them as well in terms of any questions you may have about their own country operations.

Today's presentation is packed with interesting and, I think, absolutely truly amazing stuff. We've tried our best not to make it a death by PowerPoint, so in between the presentations we'll get some more videos to show you. We've got demonstrations outside that you can view during the breaks and we've allowed three slots on the agenda where we'll give you the opportunity to ask questions.

Capital Markets Day, it's a long time since we did one, we don't do these sessions very often. Maybe we should do more, but this is an important time for us. Last month we presented our financial results for 2019 and amongst the highlights of these results was the strong cash flow, continued debt reduction and growth in our margins and earnings per share and the longevity of our order book. We also increased our dividend for the seventeenth consecutive year.

Operationally, we exited a number of small, non-core areas of our business, and this was all done against the backdrop of some political and economic uncertainty and volatility. When we actually set the date for today's event, we'd assumed that Brexit would have happened a few months ago, and of course, here we are, still no Brexit. So, the only certainty now is that this year will be as uncertain as last year.

So, that was last year. Today, though, is really about looking forward. We want to look forward and we want to let you know what you can expect from us over the next few years.

I'm going to begin with a top-level look at Babcock. I'm also going to share a number of medium-term financial and growth targets which we're now setting for the business and followed with that, you will

see a number of presentations for the sector teams who will provide the evidence of how these targets will be achieved and why we are confident that we will achieve them.

So, what do we do? What does Babcock do? I believe our greatest strength is in delivering complex engineering services to our customers around the world. We deliver products and services that save them money, help improve productivity and performance, and help our customers deliver improved services to their customers.

The Group has developed around a number of common core strengths: technology and expertise, owned infrastructure and assets, successful operating models, and I believe that it's these core strengths that define us. I think it's these core strengths that set us apart from our competitors and our peers, and it's these core strengths that protect our market leadership positions and create formidable barriers to entry.

We provide services that are really important. We help defence forces maintain national security. We help emergency services save lives. We help our nuclear customers keep the lights on. These critical services are needed. They're not discretionary and they are needed in countries around the world. We deliver these services through our fantastic, highly trained and skilled workforce of over 35,000 people.

We work in challenging environments including nuclear and aviation, environments that are heavily regulated. So, health and safety across the Group and across the world is our number 1 priority. Our Home Safe Every Day program drives us constantly to achieve perfection. We may never totally get there, but we will never stop trying.

One of our main aims today is to guide you, to guide you in what to expect from us over the next 3 to 5 years. We'll continue to focus on defence, emergency services and nuclear as our key markets. We'll continue to prioritise international growth and we'll increasingly pursue technology-based solutions to provide better services for our customers and improve returns for our shareholders.

We want to be clear about where this company is heading in the next few years. So, right up front, we are setting financial and growth targets, targets that are realistic and deliverable, and we want to show you how we will achieve these targets.

When you look at last year, our core continuing operations grew by 3%, and we have guided a similar level of growth for the current year. Over the next 3 to 5 years, we expect growth to rise steadily and our medium-term growth target is around 3% to 4% CAGR. Margins will be stable around 11% as they have been for the last 7 years, and cash flows will be increased steadily in line with earnings.

We'll generate around £1.4 billion of free cash flow over the next 5 years. This free cash flow will provide increased flexibility in terms of investing in our Company and improving the returns to our shareholders. We will also continue to improve ROIC steadily from its current levels. We will continue with our unbroken 17-year run of sustaining progressive shareholder dividends.

We expect growth to be strongest in our three key markets. We expect defence, emergency services and nuclear share of our business to grow from its current 75% to 85% of revenues. International will

continue to grow faster than the UK and will be over 40% of our business in the next few years. Technology as a driver of growth will be embedded across the entire Group.

We are setting these targets and we're sharing them with you to be as clear as we possibly can, and the sector presentations will highlight how we aim to meet these targets. I will return to them at the end of the day.

Let me say a few brief points about markets. The markets will be covered in great detail as we go through the sector presentations, but I would like to say a few starting remarks. Let me start by explaining what we mean by focus and adjacent markets. Focus markets are where we have already established long-term leadership positions.

Adjacent markets are compatible markets but where we currently don't have such leadership positions. However, that doesn't make the adjacent markets any less attractive to us. Businesses like rail, airports, South Africa are substantial and good businesses. They provide Babcock-like complex engineering-based services and they are profitable. But they are small players in their markets.

But the adjacent markets are also totally different from the non-core businesses we have been exiting and the two shouldn't be confused. The adjacent businesses are well-run, providing critical services to customers such as Network Rail, National Grid, Heathrow Airport, Eskom, and the major oil operators in the North Sea. They also consistently create value for this group.

But it is in our three focus markets that we see the best opportunities for growth. We already have established leadership positions in these markets, and we will be channelling our efforts and resources into these areas over the next few years. In defence, we are the Minister of Defence's second-largest supplier and the largest provider of support. We're involved in many of defence's major long-term programs and we work closely with the Royal Navy, British Army and Royal Air Force, all three services. Internationally, we support defence forces in Australia, New Zealand, Canada, France, Spain and South Korea.

In emergency services, we are the leading provider of aerial firefighting and the leading provider of aerial medical services across Europe. We are also the leader in Australia, and in the last 2 years, we have successfully entered Canada, Norway and Finland.

In civil nuclear, we are the leading provider of nuclear engineering and scientific services. We're involved across the full nuclear cycle; new build, ongoing operations and decommissioning and the restoration of facilities and infrastructure. This is currently predominantly a UK [bid] market, but we have longer-term opportunities in a number of emerging international markets.

Our sector teams, established three years ago on functional lines, operate across all three of our focus markets and, as you work through the presentations, you will just see how this actually works in practice.

Today, we're announcing a small change to our sector structure. We have created a new nuclear sector. The nuclear sector team will bring together the naval nuclear business that sat within our marine sector with the Cavendish civil nuclear business under a single management structure, led by Simon Bowen.

By doing this, we aim to achieve much tighter alignment with our customers in both civil and naval nuclear, and to strengthen early the position in the overall nuclear market.

The structure provides clear line of sight for our customers in the UK. Within Ministry of Defence, our traditional customer DE&S continues to work with our marine sector, whilst the newly created submarine delivery agency will be supported directly by the new nuclear sector team. All of our businesses regulated by the ONR are now under a single management team, and this is really important as we are one of the largest nuclear site licence holders in the UK.

In this slide, I show the split of business by market and by the new sectors. A full reconciliation of the 2019 results in the new sector format is included in the appendix to the presentation, but basically, around £600 million of revenue and associated costs are being transferred out of the marine sector and into the new nuclear sector.

A key strength of this business is the size and long-term nature of our order book and also the strength of our near-term bidding pipeline that gives us confidence that we can achieve the targets that we are now setting. We began this year with around 77% of our orders in place, with 51% of next year's revenue already in place. As I said, this long-term visibility is a key underlying strength of this business.

The order book and pipeline also supports our international growth ambitions; 42% of the bidding pipeline is now international opportunities. In terms of the order book, though, there is a bit of a distortion that goes on here. The balance between UK and international is distorted by the long-term UK defence contracts, whereas our international contracts do tend to be shorter in duration. We have made tremendous progress establishing multi-sector, multi-market operations already in Australia, Canada, France and Spain.

I'd like to finish my presentation with an update on progress that we are making in developing and delivering on our overall business strategy. We review and update our strategy on an ongoing basis, and the main thrusts have been in place for a number of years now. From this strategy, we develop the business models and services that underpin our support to customers and of course, produce financial returns for our shareholders. The strategy has built an enduring long-term business and the creation of the sector teams to deliver the strategy is working very successfully.

You will shortly hear from the senior sector chief executives and from their presentations, you will see how much progress has been made. I'm going to be pretty brief through this part as I move through these markets. You'll see a lot more about this in the sector team presentations, so I don't want to [inaudible] repeat it.

But what I would say, in marine you'll hear from John Howie about how we support the Royal Navy and increasingly other navies around the world and about how technology is playing a transformational role in his area of the business.

Simon Bowen will describe how we are delivering improved efficiency and asset availability to our customers in both naval and civil nuclear. Arguably, nuclear is where we play our most complex and

critical roles in terms of importance to our government customers. Simon will also touch on where we see future international opportunities.

In land, John Davies will update you on progress towards becoming the British Army's strategic readiness partner as we work in close partnership with the army and MOD to transform how vehicle support is delivered across the army's huge fleet of complex vehicles. John will also comment on several of the larger adjacent businesses that sit within land.

Our aviation sector has achieved strong growth over the last few years and most of it is international. Roger Hardy will describe just how successful this business has been and will highlight the wide range of opportunities going forward. Our ambition is to become the world's largest provider of aerial emergency services and we've made a great start as you will hear.

I'm keen to move on to the presentations, but I'd like to end my presentation by re-emphasising a few of our key strengths. Our strong leadership position in all three of our main markets, the long-term nature of the business and how we are delivering for our customers, the deep and long-term nature of our partnership with our customers - and I think the video illustrated that very well - the significant growth in our international business. Seven years ago, it was less than 10%, today it has just passed 30% and we are now moving forward with plans to reach the 40%. We have continued to consistently deliver sustainable financial results.

I've been highlighting the important role that technology is playing. It has become a key driver of productivity, performance improvement and growth. You will see in each of the sector presentations how technology is being introduced and used. Before the first break and before moving on to the sector presentations, I'd like to hand over to Jon Hall, our Managing Director of Technology, who will talk about Group-wide technology and he will also introduce the technical demonstrations that you can view at the break. Jon.

Jon Hall

Managing Director of Technology

Thank you, Archie. Hello, I'm Jon Hall. I'm responsible for the application and integration of technology in our delivery to customers and in that I report to Archie and will work alongside the sector CEOs to make that happen. My personal background is with technical consultancies in large engineering companies. I'm a chartered engineer. My doctorate was in digital modelling of complex systems. What I'm going to discuss is how Babcock defines technology and how we're delivering value from it to our customers.

So, let's start with why technology is important to our business. Technology is changing the landscape in which we operate and the services that we can offer our customers. Our technology strategy allows Babcock to take the opportunities that that changing landscape creates for us. To be specific, in Babcock, we're using technology to add value in three ways. It differentiates us from our competitors, and it helps us take more valuable strategic positions in our markets.

We can use it within our operations to improve the effectiveness of the assets and the infrastructure and the people and all the other aspects that wrap around that. All this means we can sustain the

margins across our business. Finally, we can add value and scope to our range of activities, increasing revenue from a market segment or a given program. This may be in enhancing and expanding our core support services or adding specialist systems or technical services around that core support.

Our technology strategy can be summed up in this one picture. Babcock aims to be a trusted partner for our customers in the selection, operation and through-life support of their critical assets. Our core through-life support and operational expertise across all our sectors is strengthened through our technology strategy, exerting technical authority to make better decisions for our customers and with our customers, deploying capability in data acquisition and digital technology for more effective operation and maintenance, and partnering with others and with our customers as experts in relevant technology trends and champions of innovation through technology in engineering services.

I'll expand on each of these three pillars you see there to the right with some specific examples, and you'll hear more about that through the day in the sector presentations and in the demonstrations outside.

So, first I'd like to outline some of the principles here. Let's start with technical authority. What do I mean by that? In some sectors, it's got a very specific and very formal meaning, but in general, it's about being able and being trusted to make difficult technical decisions about our customers' assets and their operability and the maintenance requirements of those assets. That's regardless of whether they've been designed by Babcock or by any OEM, we bring that capability as a technical authority. By doing that, we add more value in our core services.

It's also about being a technically intelligent and informed partner. So, when our customers need more life or more capability from their assets, we can advise them on how to do that or we can make that happen for them.

Next, data and digital technologies. We have a philosophy that wherever we can use data or digital technology in our operations to make things more effective and to add capability, then that's what we'll do. We've used our inhouse expertise, we've worked in collaboration with partners and we've used commercially available technology, and we'll continue to invest in all those three routes to using data and digital. But we do that all from the starting point of solving business needs.

Finally, technology application. So, technology in Babcock relates both to the application of new technologies and the application of our deep technical knowhow. Increasingly, customers are seeking more innovation from their service providers, and you heard some of that in the video from Andrew Forzani, our key MOD customer. They also want to know how they can benefit from the adoption of new technology into their assets and operations. So, that means we work hard to expand and share technology awareness across Babcock and to drive a growing culture of technical innovation.

In the end, it's in the nature of technology that it does change over time and new opportunities arise for us from that. So, we have a clear technology strategy and across the group, we encourage our people to have that culture of innovating through technology.

Increasingly, we deploy technology across all our sectors. We do that principally through the people and the external relationships that are within the sectors. Our core business is operating and maintaining critical assets and as well as the core asset - maybe it's a helicopter fleet or a range of naval guns as you see there - there's usually a complex range of infrastructure, supply chain, information,

people that surround it We look to apply technology to that whole enterprise, not only to that core asset. Also, we aim to participate across the full life cycle. We bring our technical knowhow into the very front end, into the asset definition and selection so we can get more capability in service for our customers and operate more cost-effectively. By looking further ahead, being aware of technology trends and developments we can make decisions with our customers about their future assets.

Here you can see examples of just a few assets that we support. In our marine sector we're using digital twin concepts to model in-service performance and move towards predictive maintenance. The long-term support contract we won for the main naval guns for the Royal Navy - which is shown here - gives us the responsibility and the authority to make design and operational changes to deliver gun performance. Our margins are enhanced on that basis.

In nuclear, we're the technical authority for all the Royal Navy submarines in service. Our work on the concept design of future submarines ranges from innovative launch technologies through to deep analytical models of submarine availability in service. That technical authority that we hold in marine was recently extended across the Type 45 destroyers and the Queen Elizabeth aircraft carriers.

We intend - we aim to expand that technical authority status, for example in helicopters. The example there for the Airbus H160, Babcock provided expert design input to enhance the effectiveness of the delivery of emergency medical rescue services from that helicopter. Finally, examples here within DSG, we draw together supply chain, the management expertise around that supply chain and data analytics to help the army optimise availability of its vehicle fleet.

So, investment in technology. Babcock does invest in selected areas of systems and equipment technology but our primary focus is on applying new technologies developed by others to enhance our core services. We carry out regular horizon scans to monitor technology developments that could improve or expand our service. Across our sectors, we're working on technologies that look relevant to us in a three to five year time frame. Often that's in collaboration with our customers, or industry or academic partnerships. In the medium to longer term, we also consider technologies that might change the nature or use of our customers' critical assets.

I'm going to go into some particular examples now. There are three themes which are high on our priority list for the near term. They are the use of data and digital in asset management, technologies used in complex manufacturing processes and remotely piloted and autonomous systems. I'll say a bit more about each of these.

So first, digitally enabled asset management. At the heart of our digitally enabled approach is the use and integration of different types and sources of data. Allied to that is the use of digital twins. These are simply virtual representations of the physical asset. They let us exploit that data in a structured and managed way. Tied together with our technical knowhow, we can model the important features of the asset and the support chain around it. That lets us understand and predict its future performance and assess how best to improve that. In this particular case - and the photo there - that's condition data being gathered by aerial survey but as I've noted in the slide, we deliberately take a very broad view of the types of data that we gather and can get value from.

It's an important Babcock philosophy to work with existing customer data systems wherever we can. Our customers often have a mass of valuable data, securely held in systems that they've heavily invested in already. It's not just about data from centres as you see here, it might be analysing patterns in maintenance data, it might be looking at unstructured data around inventory management and spares holding. Where all this has a real impact is in the operations or command and control centre where we

bring that together and where in those centres we can make better decisions, often in partnership with our customers about the operation of their assets.

Second, high integrity manufacturing. This is a vital capability for Babcock. It supports our delivery of complex programmes and our maintenance of our customers' assets. We're selective about the manufacturing that we perform ourselves and that which we pass to our supply chain. It may be kept in house to de-risk delivery or to increase our own knowledge and protect our intellectual property. In any event, having that capability, using that in-house capability means we can deliver additional value to the customer and to Babcock from any given programme. Transferring that capability to new customers in new countries can be a really important part of our overall offer. Archie mentioned South Korea earlier. That's a really good example of that use of all our technology knowhow, our design understanding and our ability to offer and advise on advanced high integrity manufacturing techniques.

So, we actively invest in advanced and innovative manufacturing technologies. For example, the development of adaptive robotic welding. Babcock was the first in the world to have this innovation certified for use on nuclear submarine hulls. That's a major achievement and has been a route to a significant new revenue stream for the company. We collaborate with a range of academic and other institutions, to share the investment and develop our own in-house expertise. We can see potential in technologies that span the range from new manufacture to in-service support and maintenance. For example, bringing production tools to the component rather than the other way around, or integrating virtual reality and modelling together with production robotic tools - bringing that away from a mass production environment and into bespoke areas, for example in nuclear in cell decommissioning.

Third, RPAS. There are many examples of the use of our technical knowhow and technology across our aviation sector that makes our service more effective. Lua is being developed by Babcock's innovation team in Spain, in partnership with local academic and commercial operations. It already supports our aerial firefighting service by helping to map fire locations and fire conditions and used together with Babcock's EINFOREX software - which models and predicts a fire's development - it improves the safety and effectiveness of our aerial firefighting service.

In land defence, we recently took part in development trials of autonomous vehicles, for that hazardous last mile re-supply to the army's front line. Our role in that case focussed on the artificial intelligence around the route finding and risk reduction of that last hazardous journey. In other sectors, we're already making use of AUVs for aerial survey of warships and remotely operated submersible vehicles for underwater surveys of ship and submarine hulls. All that for us means that we can do our work more quickly and more effectively, and it also means for the longer term that we're gaining our own in house expertise in what is a very important new class of assets.

Turning then to the final pillar of our technology strategy, collaboration. Collaboration to solve customer problems, and collaboration to pull through technology and innovation. This takes many forms in Babcock, from near term technology business partners to very long-term academic research partnerships. You can get a sense here of the quality and international spread of some of the partners that we're working with. Crucially we're driving technology and innovation in Babcock's business culture. That focus on innovation through technology will stand alongside our focus on safety and delivery to customers.

In summary, Babcock aims to be a trusted technical and technology partner for our customers in the selection, operation and through-life support of assets that are critical to their operations. Our core through-life support and operational expertise benefits from our technology strategy in three ways:

exerting technical authority to make better decisions for and with our customers about their assets right across the life cycle; deploying capability in data acquisition and digital technology for more effective operation and maintenance; and partnering with others and with our customers as experts in relevant technology trends and champions of innovation through technology.

All of this is woven through the sector presentations that you'll see today. We're now moving towards our first coffee break. I'm delighted to say that we've got a good number of demonstrations just outside - you may have seen some as you came in. They showcase a wide range of the service innovations that we've developed. For example, parts of the Babcock iSupport programme, using digital and data techniques in marine support and some great illustrations of our work on remote and autonomous systems. I'd encourage you all in the breaks, please do take the opportunity. Have a look at through the course of the day at all of these demonstrations and talk to our people there. The people we've brought along have been intimately involved in these developments, in these innovations. They're understandably proud of them. They'd be delighted to explain a lot more about them and answer your questions. Thank you very much.

Archie Bethel

Chief Executive

Thank you very much. We're now going to move into our first break, and as John said we'd encourage you over your coffee and tea to have a look at the technical demonstrations that are there. Our aim would be to be back here and begin again by 11:20am. See you after the break.

[Break]

Okay, well welcome back. We're now going to move onto the first two sector presentations, the marine sector by John Hall - sorry, John Howie and followed by Simon who will do nuclear. Following these two presentations we'll have a short question and answer break where I'll be joined with John and Simon and we'll answer your questions you have in these two sectors. Can I invite John to come up?

John Howie

Chief Executive, Marine

Good morning, everyone. My name's John Howie and I'm Chief Executive of Babcock's Marine sector. I hope you enjoyed your break and you got a chance to look at some of the technology demos. People really love talking about the technology they work on and as long as they didn't give away any national secrets then we'll be fine. Today I want to spend some time talking about what we do, the opportunities we see across our markets and the role that I think technology and innovation will play in delivering growth.

For those of you of a sort of trainspotting inclination, I thought I'd share with you a picture of HMS Queen Elizabeth, the Royal Navy's new 65,000 tonne aircraft carrier on her sea trials from our site at Rosyth. It's been a real privilege to lead Babcock's involvement in what is the development of the world's first fifth generation aircraft carrier, another piece of technology writ large. So, what do we do in Marine? It's got three fundamental outputs. We help the Royal Navy to meet their operational

requirements by providing them with available, capable platforms, systems and people. Our people are incredible proud of their relationship with the Royal Navy and the role that they play in delivering national security.

We built on that close relationship with the Royal Navy and the world class reputation they still have to win international opportunities, supporting ships, submarines and complex equipment around the world. Increasingly we're delivering innovation and technology solutions to our customers in both our core and our adjacent markets, helping them to improve their operations and reduce costs. They say that a picture paints a thousand words, and with that in mind the video you're about to see will hopefully give you a slightly richer picture of what we do day to day.

[Video playing]

If you've been a long-time follower of Babcock, you probably won't be surprised to see that over 75% of our revenues are generated in our defence markets. What might come as more of a surprise is that our international revenues now make up 34% of our total business. Our ability to focus our efforts on growing that international footprint actually is one of the main reasons we've taken the decision to realign our sectors. You can see there that North America is our largest international market, and we get there by being the Canadian Navy's strategic submarine support partner. We're providing missile tube assemblies for the new US Columbia class submarine programme and we're also designing the new large coastguard vessels for the US Coastguard.

Interestingly Korea is an increasingly important market for us, and that's why we're in the process right now of opening a new facility there. Korea has got the world's 10th largest defence budget at $42 billion and it grew by 8% last year. Our defence focus initially in Korea is on the Jangbogo III indigenous submarine programme, where we're a key partner, but Korea is also a large market for our gas handling and emission control technologies. Our UK defence business is heavily focussed on the support of the Royal Navy and you already knew that. It's largely focussed on support to the navy's complex warships. We still do about 75% of all the deep maintenance being undertaken and we do that at both Devonport and Rosyth.

As you know, we've a key role in the UK aircraft carrier alliance, delivering what is a fabulous capability for the Royal Navy. We've just successfully completed the first maintenance docking period on Queen Elizabeth with really great customer feedback. Interestingly, submarines continue to play an important part in the new business through our international ambitions. Simon Bowen is going to talk to you in a bit about the UK nuclear submarine programme. My interest is outside the UK and it's in the conventional submarine programmes. There's a number of these coming to market in the years ahead.

We're also heavily involved in complex warship support across the world, particularly in Australia and New Zealand. It was great to secure recently the contract to look after Australia's two largest warships, the Canberra-class LHDs. Although a key part of our energy in marine business centres on gas handling systems - and I'll talk about them in a second - it's by no means all we do. We were responsible for key design elements of the design of the two largest floating structures in the world today. We're designing diamond mining vessels for De Beers and we've been supporting the UK Border Force vessels. Personally, I've always struggled with the comparison between Babcock and the traditional outsourcers. There's a

technical complexity at the heart of everything we do, and the nature of the service we provide is very different in my mind.

We predominantly work with a range of government and blue-chip industrial organisations to design and deliver complex programmes, manage mission-critical assets and for many of our customers deliver these critical outputs at lower costs. An increasing focus for us both in the UK and worldwide is platform life extension programmes. Warships and submarines are complex, expensive assets and there's always that pressure to keep existing assets running longer rather than invest capital in their replacements. A great example is the Royal Navy's Type 23 frigate programme where we're working with the navy to extend the operational life of these critical platforms by twice their original design age. They're now going to be 35 years at end of life instead of the original 18 planned.

How do we do what we do? For me, it's really a bit of a three-legged stool based on bringing together our ability to deliver innovation and technology with the skills and deep experience of our people, and often utilising unique infrastructure and assets around the world. The picture on the left shows you one of our submarine weapons handling systems and the launch - sorry, weapons launch and handling system together with a torpedo loading system. The one on the right is Queen Elizabeth at Rosyth. If I just take that infrastructural asset piece first. We own a number of really critical pieces of infrastructure in the UK that are pretty important to the delivery of our customers' programmes.

Key examples are the frigate support centre in Devonport that many of you have seen, and that's where we're doing the Type 23 frigate life extension programme, and the aircraft carrier dock in Rosyth. The picture you see here is HMS Prince of Wales leaving the assembly dock in Rosyth, and HMS Queen Elizabeth in the background. No other facility in the UK could have done this. We also operate key facilities as part of our international business, such as the submarine refit facility in Canada and the warship support dock in Auckland in New Zealand.

Personally, I'd be surprised if any other company in the world has the range of experience and expertise we have on things like platform life extension. The complexity of the work we're delivering on the Vanguard-class submarines today and the frigates I mentioned is allowing us to promote these capabilities in places like Canada and Australia, who are just starting to think about similar extension programmes for their own in-service fleets. Today we're the Royal Navy's principal training partner and we're helping to develop the next generation of Royal Navy engineers. We're also delivering operator-maintainer training for the Astute-class submarines with a 100% pass rate and a significant use of training technologies that allows us to reduce the amount of platform availability that needs to be given over for submariner training. That's a benefit for the navy as a whole.

Through a range of projects, we've also developed a really strong reputation for high quality precision advance manufacturing, as John Hall's mentioned. Let's look at one of those as a particular case study. That expertise in advance manufacturing has really been at the heart of what we've done on the US-UK common missile compartment programme. It was widely publicised in the US that the other key supplier of these assemblies had suffered significant quality issues and had suffered a severe financial impact as a result. We just haven't had those issues. We've worked closely with the customer - in this case General Dynamics Electric Boat. We've demonstrated really high quality standards backed up by the long-term partnering relationships as a company we love, and as a result we've now received a further order for 30 more missile tube assemblies and hopefully more to follow in the future.

Our success in this programme was based on an early decision to invest in advance manufacturing capability, through multi-access machining centres, robotic welding capability and a range of other investments that allowed us to be more efficient, raise quality and deliver consistency. That top picture

there shows four missile tubes that have been assembled into a quad pack, and the large surface you see is actually part of the pressure hull of the submarine. Clearly someone's going to turn them the other way up before they fit them. Hopefully.

The way we use technology to grow our business is going to be a real focus for the revised marine organisation. An important element of that is how we maximise the advantage we get from complex systems and equipment where we own the intellectual property. Our Weapons Handling and Launch Systems are a great example of that. Our systems are fitted to all UK submarines but also to a number of international programmes. It's the adaptability of our system that gives it a unique capability - actually what's led the Australian's to nominate it for the new Attack-class submarine programme being provided by Naval Group in France.

In our energy and marine business, our portfolio of gas handling and emission control technologies has also given us a market leading position. Since we launched our ecoSMRT® LNG reliquefaction system, we've sold 23 systems worldwide with a good pipeline of opportunities ahead. We've just sold our first LPG system that also acts as a fuel supply system for the ship and our new eco-ethane system allows ship operators to carry methane-rich ethane which reduces refining costs. The system allows the boil off gas to be reliquefied and burned in the ship's main engines during the transit voyage, such that by the time the cargo gets to its destination the methane content has been reduced and it improves the economies for the end customer. It's a win-win for the whole supply chain.

The other capability that we're increasingly looking at is digitally enabled asset management. Our asset management tool, we've called marine iSupport. It allows us to offer our customers a better understanding of how individual components and systems on their ships are performing. With that knowledge, we can help them make decisions about maintenance requirements and timing, operator and maintainer training and supply chain solutions. Fundamentally it provides a route to offer a wider range of our capabilities in both the UK and internationally.

Let's say that we knew that a key component on a ship was predicted to fail within the next 500 hours and that was going to coincide with the ship being at sea. We can either choose to help the customer by replacing that component before the ship sails, or making sure the customer has the spares on board to do that work themselves. We can offer to provide refresher training to the crew to help them with that, or if they prefer we can repair it ourselves at one of our international locations or get one of our network of partner organisations to do it for them. Fundamentally iSupport gives our customers better information leading to better decisions, improved availability and lower costs. It also acts as a gateway for us to sell the other services we already have. Let's just have a look at it.

[Video playing]

If any of you haven't had the chance to look at it yet, the data analytics capability that sits at the heart of iSupport is one of the demos outside. Well worth a look, but I would say that, wouldn't I? I think we've covered all the key elements on this slide so I won't dwell on it. What I would say is that although there's a number of markets there we're focussed on, we are very particular about the opportunities we pursue. It allows us to keep our win rates up and to protect our margins. It'll come as no surprise that we've got a really strong market position in UK defence for complex naval support, but there's still room for growth. We've been really successful in building our equipment management business and

we see opportunities in the communications and system areas where we currently have a much lower share of the market.

Looking both at the international defence and the energy and marine markets we've got relatively low market shares, but with strong positions in specific areas such as weapons handling and gas handling systems. Clearly our aim is build stronger positions in these wider markets, leveraging off our international property, our relationship with the Royal Navy and our existing international presence. Our overall addressable market over the next 10 years is £26.5 billion and of that, £11.5 billion is now international. It's getting towards being half of our addressable market for the future. North American and Australasia are still key markets but we're starting to see opportunities emerging in other parts of the world.

If I had to describe the key characteristics of the business, I'd probably say that both in the UK and internationally we've got a number of long-term integrated output contracts often based in incentive arrangements built on strong customer partnering relationships. Some of our work - mainly in the consultancy, energy and marine areas - is shorter term in nature and we do undertake a range of procurement activities on behalf of our customer and those volumes are generally less predictable. Again, just for clarity, most of the work in this new business is won in competition.

With the defence business providing the vast majority of our longer-term contracts, we can see that the order book and pipeline have got an over 90% defence content. We carefully monitor trends and talk constantly to potential customers in the other markets, but we generally get slightly shorter visibility of opportunities coming to market. So, what's our strategy then? Clearly, we want to carry on being the Royal Navy's main trusted support partner. We want to grow our technology capability, driving not only top line growth but also underpinning our margins. As I highlighted earlier, we'll be heavily focussed on growing the international elements of our business. All of that clearly needs to be built on a solid track record of operational delivery.

Just for your information, the ship you see here is the world's largest LNG fuel supply vessel, using our innovative fuel gas supply system. The ship is based in the Baltic and it was developed jointly by Babcock and a ship management company called Bernhard Schulte. Key innovation. Look at the UK business and how we grow that, well, clearly, it's about delivering a world class service to the Royal Navy. That means continuing to deliver on the Type 23 life-ex programme and helping the Royal Navy to shape the future support strategy. We've currently got five of these ships in life extension and you can see three of them pictured here. One of the most important elements of our future UK strategy is the strategic partnering programme with the MOD and cabinet office. This will help us cement that long-term relationship that we started in 2010 with our terms of business agreement.

That move to digitally enabled support solutions is also a key part of our strategy, both for the UK and beyond. Clearly, we want to secure our position as the future training partner. One of the great things about this business is the really long-term planning horizons we get for big naval programmes, often running to 30 or more years into the future. Those in-service support time frames can actually still be increased themselves, if there's platform life extension programmes to be added. The beauty in the systems and equipment area of the work we do in weapons handling for example is that they're such an integral part of the design of the platform that the system tends to be specified early - often by the end customer - and we become a key part of the ship builder's supply chain.

Looking at international markets, we see a number of new programmes coming to market in the years ahead and they're going to generate a number of opportunities. There's new submarine programmes in Australia, Netherlands, Norway, Poland as an example, and there's new surface warship programmes

in a range of countries. All of them provide equipment and service potential. Clearly, we hope to secure a long-term position in the Canadian submarine programme through to the end of life for the Victoria class submarines and hopefully part of their life extension programme. We're looking hard at the potential to increase our global footprint. It's been really great to see the growth in interest in our joint venture in Duqm and Oman. You can see a picture here of part of that facility. We're working with some of the major navies to see what value they would get from having a one stop shop for secure intelligent support worldwide.

Just as we see in the UK, there's a growing number of international programmes where we have a platform footprint and systems input and we've either already been selected or we're due to bid opportunities in the short to medium term. Again, for some of these programmes they run out 20, 30, 40 years. As I said earlier, technology solutions and innovation are going to play an increasingly important role in our business. Digitally enabled support solutions are part of that shift. Equally, equipment support and inventory optimisation has been an important growth area for us over the last few years and I expect that to continue as we take that service increasingly into the international space.

We'll continue to develop our weapons handling capabilities and develop the technology that sits behind it and we'll target these new programmes that are coming to market. We've demonstrated that we're world leaders in niche areas of gas handling and emissions controls technologies, and as we see further pushes to reduce marine greenhouse gas emissions, I think we can - that's another area we can exploit for future growth. The global market for C4ISTAR or command, control, communications, computing intelligence surveillance target acquisition and reconnaissance - now you see why it's got an acronym - that's a significant growth are and most of it is of great interest to the OEMs but there are specific niche areas like secure communications where we've got a role to play and an interest in the technology.

As Archie said, health and safety is critical to our business. We need to send everyone home safe every day and our customers expect no less from us. Clearly none of the growth opportunities we've talked about matter if we don't deliver the operational performance our customers need and the financial returns our shareholders expect. Output based contracts with sensible risk transfer give us the ability to earn better margins. For my mind, it's only our technical and programme expertise that allows us to sensibly manage those risks. Again, I think it's one of the things that makes us different from some of the so-called competitors. Crucially we've got strong intellectual property in some parts of our business and that supports higher margins.

In summary, we're focussed on our core defence market but with some interesting adjacent markets, we're looking to expand our international presence across each of our core business areas. Technology will play a crucial role for us as we move forwards, and although revenue growth has been impacted in the last few years by the turndown in the QEC programme and the exit of Appledore in offshore renewables, actually the underlying businesses continue to grow and although there'll still be an effect

from QEC this year we still expect that growth to continue. Overall that should give us a 4% compound annual growth rate over the medium term.

Bring all of that together and I think we've got a business with strong customer positions, markets with good future visibility and opportunities to grow the business without weakening it in the process. Thank you. I'll now hand over to Simon Bowen who can talk to you about nuclear.

Simon Bowen

Chief Executive, Nuclear

Good morning. As John said, I'm Simon Bowen and I'm the Chief Executive of the newly formed Nuclear sector. It's a huge privilege for me to have taken over as the chief executive because that's where I started my life at the age of 18 when I joined the navy and went into submarines. In the pictures you saw earlier on - in the film that we had earlier on about submarines punching through the ice and doing patrols under the ice cap, I did that in 1987. Yes, I am that old. We did it in 1987 with two American submarines while we played cricket and baseball at the North Pole. Yes, that's what you pay all your taxpayers money to the navy for, so we get to go do really cool stuff like that. It's an immense privilege for me to come full circle for my career, because I've been out of the naval nuclear programme for many years, to come back here and to be involved in what I think is a critical national service provision.

The newly formed nuclear sector, what do we do? We design, we build, we maintain, we repair, we fuel and we de-fuel and we decommission nuclear assets from nuclear reactors to nuclear facilities across the civil nuclear estate, to complex submarine infrastructure and of course to the four classes of submarines that we currently support and to the fifth in preparation for Dreadnought to be built and to come online to take over from the Vanguard-class. We're a people business and proud of it, and we've got industry leading expertise. In project management, in engineering, we have technologists, scientists and business professionals with safety at our core.

John and Archie have talked about home safe every day - it's never more important than it is in the nuclear industry. It’s not only a responsibility to our employees, to the Royal Navy to keep them safe at sea but also to the communities that surround our operations. We support the Royal Navy keeping the fleet of hunter-killer submarines at sea and we're really proud to have been part of the continuous at-sea deterrent - currently the Vanguard class - which has recently celebrated its fiftieth-year anniversary of the continuous at sea deterrent. In civil nuclear we do keep the lights on, we support EDF keeping the lights on and we help them operate their reactors and help them life extend their reactors. We're part of a team creating a future for nuclear by responsibly dealing with the legacy. We have a broad ranging set of responsibilities.

Our business is split approximately one third civil nuclear and two thirds defence, and what are the characteristics? We're the lead provider of engineering services to the submarine fleet into civil nuclear. We've got long term generally incentive based contracts. We own and operate unique assets and infrastructure. We solve really complex engineering problems in all areas of our business, and we sustain margins simply through delivering for our customers and delivering more efficiency and more value for

them. Babcock is a major supplier across the whole of the nuclear estate in the UK. Let's take a look at a video that shows what our submarine business really does.

[Video playing]

Submarines are my blood and I - every time I look at that it just gives me a shiver, it's fantastic. What would I say the two innovative things that you - that I would point to in that video? There are two main ones I'd like to point to. The first is if you think about submarines and the need to maintain them, then docking facilities are probably one of the most critical assets you have across the estate and the enterprise. The availability of docking facilities is short and we - clearly you can never have enough docking facilities. The innovations that we've brought into in-water maintenance - so the more you can do in-water the less you have to use your docking facilities - we've made some real strides in terms of innovations in that area and have saved the Royal Navy a huge amount of docking time which means more availability for the submarines.

The second innovation - you say an animation followed by a guy popping out of a large water tube in an orange suit. That's submarine escape training and whilst it was massive fun to do it, what you're asking submariners to do is shoot up a water tower which is 100 foot deep. We've now developed innovation for the next level of training where we can simulate that as opposed to actually having to do it, because it's not without its risk. Innovations in both maintenance but critically also in training. Submarines are incredible complex systems, and to put our responsibility into context the lives of around about 120 people - 120 crew are in our hands every time they dive. Our engineering standards, the quality that we apply, the rigour that we apply during maintenance and the operational excellence keeps us - our submariners safe and allows the platform to fulfil its mission. At the end of the day, that's what it's there to do.

How do we do that? We operate Clyde and Devonport naval bases on behalf of the Royal Navy. We provide critical waterfront logistics and engineering support. We carry out engineering and refit work to extend the lives of the Trafalgar-class and the Vanguard-class submarines. Similar to what John was saying, we're trying to get more and more life out of the existing assets. We maintain the infrastructure at the dockyards we own at Devonport and Rosyth and we support the Royal Navy in the infrastructure upgrades at Clyde. We de-fuel and dismantle retired submarines and we deliver major projects in decommissioning at the Atomic Weapons Establishment at Aldermaston. That's both major projects and support of the strategic deterrent, but it's also dealing with a legacy of plutonium-based facilities which we've got considerable expertise from our civil nuclear organisation.

So, what do we do in civil nuclear? Clearly, we decommission. We're the lead partner at Dounreay and we're now looking towards the next stage of Magnox decommissioning and the shutdown of the EDF reactors. We design and build complex equipment for Sellafield and the left-hand picture are a set of doors that are on the - one of the most hazardous facilities in Sellafield which is called the pile fuel cladding silo. We built the doors in our facility in Babcock in Rosyth. We designed them in partnership with Rosyth and we built them, and we've installed them, and you'll see a video a little bit later on of how we're designing and building the retrievals kit to recover what is some of the most hazardous material on the Sellafield site.

Our nuclear services team refuel the current reactor set and we do in-core inspections to support EDF in extending the life of the reactors. We provide engineering services, safety case support, laboratory services and obsolescence engineering to the rest of the civil nuclear industry. Those are providing real opportunities for us to export that capability as well. We're one of the main partners at EDF - in fact

we're signing - we signed last night an alliance agreement with EDF on the provision of all of the design and installation that we're doing for the mechanical, electrical and heating and ventilation. I'll again show you a diagram a little bit later on about how complex that really is. That alliance is designed to follow on into Sizewell and Bradwell which will be the follow-on projects to Hinkley Point.

At the heart of that are the skills and the capabilities and the technologies that we employ and those will allow us to both exploit the UK market but to export as well. The regulator environment within which we operate is unique. We've over 40 years of experience as a nuclear licenced site holder. I've personally held three licences, so I've been the licence holder for three nuclear licenced sites. We currently have 15 of the UK licences around the UK, so we operate 15 - as the operator, we operate 15 nuclear licenced sites in the UK currently. We know how to do this. It doesn't just include conventional safety and nuclear safety, it also includes security - which is a critical part of the nuclear business - and environmental compliance which is becoming an increasingly important part of the way in which you run sites, particularly decommissioning sites.

Where do we operate? Well, we operate around the whole of the UK. From Dounreay to Devonport, from Sellafield to Rosyth and through Bristol to Aldermaston and with our 10,000 workforce - 10,000 strong workforce we have over 5000 people who are nuclear specialists. We have the biggest nuclear workforce of any listed company in the UK. We also operate at virtually every nuclear facility in the UK. You can see on that diagram both the Magnox stations, the EDF stations and the multiple other nuclear sites around the UK and we operate at all of those. The diagram you see on the top right-hand corner is the pipework that we as Cavendish Nuclear will be installing - designing and installing at Hinkley Point. If you want a window on how complex a nuclear reactor is, that's just part of it.

So, what are our core strengths? At the core of our business we have fantastic people. We have industry leading capability and we have technologies and expertise that can utilise these in both the UK and abroad. We manage complex infrastructure, bespoke to each class of submarine at Devonport and Rosyth and Clyde and we've long-term collaborative relationships where we deliver customer - where delivering customer value is absolutely critical. We have a centre of excellence - we have been the centre of excellence for submarine engineering, infrastructure operations and submarine training for over 30 years. We have deep and respected experience across the submarine enterprise in these areas.

We're at the heart of supporting the Royal Navy in the transition from the classes of submarine, so as the Trafalgar-class is retired and the Astute-class comes online - it's already operating now but as the number of boats starts to increase then we're looking after that transition and the provision of deep maintenance facilities and capability to those boats. Of course, as the Vanguard-class extends then life extension - as it is with the nuclear fleet in the civil industry, it becomes a critical part of what we do in supporting the Royal Navy in being able to operate these assets safely at sea for much, much longer than was originally intended in the design intent.

We're the centre of excellence for submarine defueling and refuelling. We're market-leading experts in radiation hazard management and waste minimisation. What does that mean? It means you can decommission facilities at lower cost. We specialise in fit for purpose engineering, so we don't over engineer things. We do things at a cost which fits the purpose for which the kit is intended, and we do things from a safety perspective proportionately. You have to adhere to nuclear standards but you can do that proportionately to control the cost. We have an increasing capability in nuclear manufacturing

- I talked about the capability we've got in Rosyth - and we've recently formed Cavendish Nuclear Rosyth to exploit the UK nuclear market and the manufacturing opportunities that that presents.

We've got a number of breakthrough technologies, one of which you'll see demonstrated outside which is in-cell decommissioning involving robotics, virtual reality and remote - basically remote assessment of radiation levels with the ability to segregate waste and therefore reduce the cost of waste disposal. On infrastructure and assets, we own and operate deep maintenance facilities and operational support at Devonport, the upgrade of the infrastructure to prepare the Astute-class submarines for deep maintenance, and we've unique facilities for submarine dismantling at Rosyth. We operate the Clyde naval base and probably one of the most complex pieces of equipment you will see in the submarine enterprise is the ship lift, which allows us to lift submarines out of the water as opposed to putting them into dock and to maintain them out of the water in the ship lift. Scarily, I was part of the team designing that back in the late 1980s and the more surprising thing is it works as a result of that.

The - at Clyde we've now got the Astute jetty and the big thing about the Clyde is that Clyde is now the main operating base, so operational excellence - the rigour within which we support the submarines and the speed at which we can turn the submarines around will be critical to keeping the submarines at sea and maintaining those as part of the UK defence. Of course, right in the north of Scotland we are part of the team - we're the lead partner decommissioning Dounreay. Dounreay is the second most complex decommissioning effort in the UK, second only to Sellafield. This is a contract that we have through to what's called interim end state, which is where the site will be retired in around about the 2030s and basically left with most of the facilities removed. Our contract is to take it to that state, so a really important part of the risk and hazard reduction that we have in the civil nuclear industry.

What about our markets? As John talked about earlier on, in UK defence we've got a very well-established position and in my business, in submarine support. We've got really good long-term visibility and I'll talk about that in a second about what that looks like. Likewise, in naval based support in Devonport and Clyde. We recognise that there's been a substantial amount of - or there is a substantial amount of investment that's required in the infrastructure, particularly at Devonport, and we'll be part of the team working very closely with the submarine delivery agency on working out what that needs to look like and how we actually deliver that. We see that as an opportunity for us going forwards.

Likewise on submarine dismantling, we believe that that programme will now start to recommence, and we'll start to do the defueling - more defueling at Devonport which - and therefore that will utilise our facilities at both Devonport and Rosyth. Again, we see both infrastructure and submarine dismantling as being an opportunity to allow us to underpin the growth that we're signalling here. At AWE - AWE remains a very, very complex site with a lot of new investment to be done to maintain the strategic deterrent and also - as I was saying earlier on - to treat the legacy facilities that we have there at Aldermaston.

In civil nuclear, the UK decommissioning market remains large and with the - with the Magnox - Magnox contract being taken in house we believe over the sort of medium term, the Magnox - the new Magnox team will determine what they're going to bring out to the supply chain but we believe the opportunities will be big because they've still got to deal with the legacy and we've still got to take those reactors back to either their interim end state or actually to final reactor dismantling. We believe that those opportunities still exist, and of course the EDF stations in decommissioning space. Whilst for UK PLC we need to see those lives extended of the reactors to keep the lights on, then at a point - then

those safety justifications will not need to be made and we're very well placed to support the defueling of the reactors and then of course with all of the expertise we've got in decommissioning.

UK new build - as I said, we are well placed with Hinkley Point and with all of the work that's going on with government working on the asset-based finance model for Sizewell and the decisions about who they will allow or won't allow to invest in UK infrastructure, we still see that there's a very clear case for nuclear being between 20-30% of the - of the power generation going forward. [Bays] would say - would agree with that. They still see that need, so we still need new nuclear. However, we are going to see a delay between now and when that finance model gets agreed and the next projects get kicked off.

We remain one of the top three suppliers in our nuclear services business to EDF and to Sellafield, and we can see that going forwards into the future. We're also continuing to put considerable effort into penetrating the international markets and I'll talk later on about Japan, Canada and Spain. In terms of our order book, we have a very healthy order book and a healthy pipeline. You can see on the right-hand side, the main opportunities that we see going forwards in both civil nuclear and in defence. So, to our strategy. Our strategy is actually pretty simple. To enhance our levels of operational excellence and customer delivery. That's at the core. That's our permission to do everything else. That's where we're very heavily focussed.

We need to - we will continue to grow our partnership with the submarine delivery agency, and we see the strategic partnering programme as being a critical part of that in enhancing our business relationships and leading to better delivery for the submarine enterprise. We continue to improve our service support for deep maintenance delivery and to keep the submarines at sea, because that's the aim. We'll need to establish FMSP as the next contract for in-service support, and we'll grow our civil nuclear business as a trusted partner to the NDA and to EDF and as I said earlier on, we look to spread our wings internationally.

The specifics in defence. We've developed a track record of delivering value and savings to the MOD. Between 2010 and 2025 we will deliver under the terms of business agreement for the dockyards over £1 billion of saving in value to the MOD. That's well recognised. FMSP will be a really important next step to build on this, and as a contract drives performance improvement across the submarine enterprise. The focus has to be on transformation of the submarine enterprise to deliver better value to the MOD and better value to the taxpayer. Delivering Vanguard life extension is not only critical for the UK defence, it's also a very important programme for us, and delivering the Astute-class deep maintenance facilities at Devonport is equally important. Strategic infrastructure will be a focus for us and the SDA and we're working through the strategy as to how we deliver that and restarting submarine dismantling and defueling I talked about a few minutes ago. At AWE we still see many opportunities for both major project work and for decommission opportunities in these high hazard facilities that they have.

This mirrors one of the slides John put up and highlights the long term visibility that we have, and also shows that we're already involved in the Dreadnought class submarine from our offices in Keynsham where we're doing a lot of the work around the technical preparation for getting these submarines

built, and critically built in a way that we can efficiently maintain and keep the platforms at sea. So what about our nuclear business? Let's remind you of what we do in Cavendish Nuclear.

[Video playing]

So, what about growth in civil nuclear? It starts with delivering on our commitments and promises to Sellafield, to Dounreay and EDF. We want to explore the next states of Magnox and we do see there are significant opportunities into the future with Magnox, particularly with continuous reactor dismantling. We want to support EDF and will continue to support EDF in lifetime extension, as I say to prolong the lives of nuclear reactors and then naturally into the defueling because we run all of the fuel equipment. You saw Brian Cowell, the MD of - the managing director of EDF current generation talking about our critical role that we play in lifetime extension and the operation of the fuel route. We are a natural partner to support EDF in defueling and then we'll be exploring the various models that can be adapted or adopted for decommissioning.

We've got a growing number of vertical markets, with high end manufacturing. You saw in that - in the film the facilities that we've built at Babcock in Rosyth in our - at our Rosyth dockyard through Cavendish Nuclear Rosyth and supported by Babcock at Rosyth as an integrated team to build what is highly complex equipment being used in a very hazardous environment so a critical safety environment. We have a growing capability in laboratory services, in radiometric services and our - we have a real technology advantage in some of the technologies that we're developing across the nuclear estate.

Internationally, we've built on the UK leadership in high hazard defueling, building on what we already have. We're now - we are very well placed in Japan for the decommissioning of the Tokai reactor and also we're working in partnership with Hitachi at Fukushima. This is really difficult and important work and is slow burn. It's the sort of work that takes a lot of patience because the planning of this work and the development of the relationships with the Japanese takes time. But we still see this as a huge market opportunity. It's a multi-billion-pound market and we want to be part of that. In Canada we see slightly different opportunities. Yes, there are decommissioning opportunities but there's real interest from the various reactor types out there - particularly in Ontario Power and Bruce Power in the work that we've done in lifetime extension, in obsolescence management, to help them to extend the life. We're bringing some new technologies to that and we're working with them, and we see that as a great opportunity working with the Canadian team to start to grow that market.

Working with the Spanish team, again the nuclear reactors in Spain have been declared by the government that they will decommission and we're already talking to a number of Spanish partners on how we might support them in that, both in terms of provision of technologies but also in the provision of programme management and expertise. Continued operational excellence has to be at our core and the most important part of that is safety. Safety is a licence to operate issue and home safe every day is not a mantra, it's an imperative. We maintain our operational edge through our outstanding people and the rigour of our business approach and business excellence.

We are increasingly focussed on engineering innovation in design, innovation in the application of novel technology solutions, and the complex engineering capability that we have together with our continued delivery of improved efficiency and enhanced customer value will help us to sustain our margins.

So in summary, nuclear in defence and civil are long term sustainable markets. We've market-leading professionals in all disciplines and unique skills in multiple areas. We own and operate submarine

facilities that are critical to the Royal Navy for keeping the fleet at sea and keeping the UK protected. Our partnering approach particularly now through the strategic partnering programme gives us confidence in the long term visibility of our markets and revenue. We've substantial opportunities in civil nuclear, both in the UK and internationally, and this allows us to forecast growth and sustained margins. Thank you.

Archie Bethel

Chief Executive

Okay. Thank you, John; thank you, Simon. Can I invite you to [inaudible] podium Simon and take a seat? Two excellent presentations, and I think now we'll move to the first question and answer session. How this is going to work is I'll decide who gets to ask the question. When you do, before asking the question could you please give your name and the organisation that you represent. You'll find the microphones on the back of the seats in front of you. There should be one microphone every second seat. If you lift these out, that will allow you to ask questions. Feel free to ask the questions directly at any of the three of us, or if you just want to ask a general question then we'll pick up who's probably best to answer it. Who is going to start off the questions? You're first and I'll come back.

Q&A Session

Sash Tusa - Agency Partners

I think a question initially for John Howie but it's a clearly a broader naval question which is how your forecasts for 4% revenue growth square with particularly a Royal Navy that continues to decrease in size in terms of surface combatants and in terms of submarines probably levelling out? Is it just - and I use the word advisedly - that your value per platform continues to go up because they become more complex and the work you're doing is becoming more complex? Or is what underpins your revenue growth forecast that you are doing more manufacturing and more international which is outside that core support metric?

John Howie

It's a good question, Sash. I think it would be foolish of us to assume that we could just sit and try and squeeze more and more money out of customers on refits or complex platforms. We've got a high market share in that area but what we do have is the potential to bring extra added value services.

We talked earlier about the MSSP programme, where we've taken on the technical authority of all the platform systems on the Queen Elizabeth Class aircraft carriers and the Type 45 destroyers, that's a role in addition to our traditional dockyard type roles. So there's extra growth comes from helping the customer in areas we didn't do before.

There's no doubt that the technical content of the work we do has gone up as the platforms become more complex. But it's the [point] you made at the end which is actually if we look at the international

market the UK has always been a leader in defence procurement policy. What you find is a lot of other countries tend to follow behind and there's a bit of a time lag.

We've seen it in Australia and Canada and so we're actively marketing some of those solutions in other countries and that's where we expect some of the growth to come from.

Archie Bethel

Can I maybe just add something on that too, because I think it's the same with the submarine fleet, so in theory you're right by saying the numbers aren't changing that much. But in both surface ships and in submarines over the next 10 years there are some major transitions going on. So we're transitioning from Trafalgar class to Astute class and during that transition period you're basically running two separate fleets of submarines. They are totally different submarines, different technologies from different eras and it's you're kind of doubling up.

The same thing is happening in the surface fleet side, so we're seeing the Type 23s being life extended so that we can then transition them into Type 26s and Type 31s, and that again is a long-term programme. So that transition drives complexity and a bigger need for the sort of the services that we provide. Of course, in the surface side, well the other sort of a disruptional impact is the two aircraft carriers.

Now we haven't supported aircraft carrier operations for many, many years and we have never supported them on a scale that we're going to see develop over the next few years. So it's these transitions, it's the upgrading in the platform that will still continue to drive good opportunities in the UK.

Simon Bowen

Just to - from a submarine perspective just to build on that, Sash, ours is less focused on more work within the existing class and it's much more about exactly as Archie is pointing to, which is we know that there has to be investment in the infrastructure, particularly in Devenport, and we know that we have got to accelerate the decommissioning programme for the submarines, and that's really the heart of where we see the opportunity.

Unidentified Participant

[Inaudible question - microphone inaccessible]

Archie Bethel

Okay a number of questions there. Your first one was on - sorry was on [inaudible]. I mean as we internationalise, I mean we have pretty much so far on that naval side we have followed the Royal Navy's model, so not surprisingly it's been Canada, Australia, and New Zealand, all part of the Five Eyes

network. We don't have any issues with that. Beyond that, yes, we have to take a lead. I can't imagine us doing Russian warships or Chinese warships for instance.

But I think we've a close relationship so we're involved in South Korean programmes, we're involved in Spanish, we're involved with the French and the new Australian submarine programme, and that's all done with the government being very much aware of the roles that we intend to play in these programmes. So it is a factor but I don't think it's that much of an [inaudible] factor. Simon, would you like to say about the Spanish programme?

Simon Bowen

So Rosyth is mainly focused on the work we're doing for Sellafield because it's high end manufacturing. So you saw the doors and the modules that we've already built. Last year we announced that we won the Glove Box contract, which is a multiple Glove Box contract, circa £100 million, where we'll manufacture the Glove Boxes and these are really high end, very complex pieces of kit, which we'll manufacturing at Rosyth.

We also see the opportunity for some large-scale manufacturing in waste containers, which again are complex but we believe we can build on a lot of the techniques that we've used in things like the carriers to be able to manufacturer those. So it's several nuclear - I think the bigger opportunity comes in new build with modular manufacture.

So we've done a lot of work on Rosyth and with NewGen on modular manufacturer and all of the designs they're talking about for NewGen and for Wylfa. The different designs all require modular manufacture and we're very well placed with the expertise that we have in Rosyth to do that.

With regard to Spain, we've built a low level of revenue into the budget going forward simply because it's going to take us a while to penetrate the market. So it's not massively material at the moment. What we're doing is we're - we've done a number of bids into Spain for obsolescence management, which is measured in the high tens of thousands to a few hundred thousand just to get a bit of market penetration. Then we're working with them with on, okay, so what about a bit of decommissioning planning, so it's that sort of thing? So it's not massive in revenue terms and again will be a fairly slow burn I think.

Archie Bethel

I'll take Rob and then Joe, so Rob if you…

Rob Plant - (Panmure Gordon)

If I asked about international [inaudible].

John Howie

I mean at one level, it sort of mimics what we've seen in the UK. Babcock is a relatively unique business. So when we look internationally the sort of things we - it's very market specific. So on gas handling systems we've got two main competitors but we're the market leader. On weapons handling systems,

again there are two competitors who are generally part of shipyard groups but they don't have a system that's a direct competitor, and it can't fire some of the heavy weight torpedoes that we can.

In the support environment we tend to find the international shipbuilders don't show that much interest in it. The RN relationship is really, really key to that and we often find ourselves much more trying to put together complex partnering arrangements. So the competitors vary depending on the market but there isn't anyone that we trip over on a consistent basis across the piece, horses for courses.

Archie Bethel

Joe, are you going to try? I've got a mic coming down as well, if that's not working I kind of give up.

Joe Brent - (Liberum Capital)

Two questions if I may. I think the first probably for Franco. You've very kindly given us guidance of EPS, 3% to 4%, can you actually just spell out just for the avoidance of any doubt what drag you expect in 2020 and 2021 from Magnox and carrier.

Maybe while you think about that if I could also ask Ruth about the strategy. I'd love to know what involvement you've had, it's clearly quite early stages, to what extent do you buy into the strategy that's set out this morning?

Archie Bethel

Okay, well, why don't we pick up on - you said Franco but I don't know if you want to. I mean I think the thing of the drag on Magnox and carrier, there is still a drag onto next year. We've factored these into our forecasts so we do not intend going forward talking about Magnox those [inaudible] drags, they're there. We're at the final stages of it and they'll be behind us.

So the guidance we've given for this year takes that into account and the medium-term targets we've just set this morning takes that into account as well. I think you may be putting Ruth on the spot here and I'll leave that to her. She isn't in her new role, that's to be formalised, but if she would like to respond...

Ruth Cairnie

Yes, well, I mean Babcock like all companies has a regular board strategy process, which I've not been involved with the normal annual process because that's coming up later in the year. But in preparation for this session, the Board has been involved reviewing and discussing the materials and I've been an active board member in that process.

I would say the strategy that Archie has presented and then deepened through the other sessions of the presentation so far, I mean I very much support the approach that's been taken. So it's that real focus on the core focus markets where we have clearly differentiated defensible positions. It's building

in the opportunities that technology presents us with to really deepen those positions and to find new opportunities and add more value to the customers.

It's looking at building out that international presence. I think we've got some good basic positions and a lot of opportunities that we can build out. But I really - I just recognise, for example, Simon's response on how we're doing that, to do it in a very thoughtful measured way, where we're really going to build that - continue to build those very strong defensible differentiated positions. So, yes, I'm very much in support of this.

Archie Bethel

Thank you. Any questions, anyone missed out here.

Sam Bland - (JP Morgan Cazenove)

I've got two please. The first one is on the nuclear reclassification. Obviously, they'll be reported as one business going forward but if you could just talk about whether - well defences of nuclear and civil and nuclear. Are there operationally more commonalities, whether that's in people or processes that are used or could be used across both of those different subsectors?

The second question is on - you talked a lot about technology this morning. Do customer contracts typically specify what kind of technological applications they're looking for, or is that a little more optional, and if it's optional and you can suggest certain things, how does that get priced with the customer as a long-term contract goes along, thanks?

Simon Bowen

So in the development of the nuclear sector what we've said is we're going to run them as two separate sectors - two separate businesses within one sector to start off with. Are there longer-term opportunities for synergies between the two? Well, yes of course there are, but we've not built any of those in because at the moment that's not the purpose of pulling the two together.

The purpose of pulling the two together is to get a more integrated and a better offering to the customer, and also to use our resource better across both. I think what you will see in time is us forming a combined engineering project and safety case organisation, which will naturally give some synergies but I don't think those are going to be massively material.

What I'm much more excited about is it provides a real opportunity for us to recruit a lot more talent into the organisation to provide a better service to the Royal Navy and a better service to our civil nuclear customers. So that's how I'd answer the first question. The second is a great question. I think the answer is it varies. Our customers in the UK do not tend to specify the technologies but they tend to look for output.

So the nuclear decommissioning environment tends to be much more focused on - can you tell us what it's going to cost to give us that in a box in a hole in the ground? That's probably a very crude way of

putting it but that's essentially what it is. Therefore, the way in which you apply technologies to that will either give you advantage or not.

I think the more interesting part is internationally, where particularly in countries like Japan, to an extent Germany, definitely to places like France, you can't go in claiming that you've got more capability and expertise and engineering and project management than the locals have because that just annoys people. Where you really get a ticket to the game is when you bring something like In-Cell Decommissioning, or a new technology.

That opens the door and what we're seeing is, for example, in Fukushima where we've brought TEPCO over to have a look at what we do, they kind of get what we do in decommissioning but they don't really, really get it to the point they want it. At the point where they see the technology they say, oh right, okay, I understand you can bring a technological offering which we understand and we haven't got and then you can wrap a service around it, so it becomes much more of a service offering. So it's a kind of it depends answer, does that answer your question?

Archie Bethel

Okay, well, I think I'd like to keep to the timetable, so we'll draw this session to an end. You'll have another two opportunities after lunch to ask questions and at the final session anything that you want to ask from any of these sessions you can bring back up again. So we're going to break now for lunch. The demonstrations will still be active through lunch if you want to see these and I encourage you do that. If we can be back at 1:15 that would be great, thank you.

[Break]

Presentation

Archie Bethel

Chief Executive Officer

The next presentation, the next sector will be our Land sector so I'd like to ask John Davies if you would come up and give this presentation.

John Davies

Land - Chief Executive

Thanks Archie. Welcome back, everybody, and again I hope you had the chance to see some of the excellent demonstrations during the break. I'm John Davies, I run the Land sector. In our Land sector we have two principle units, land defence which is 100% focused on the defence market particularly vehicle support and training. Land defence has long-term contracts particularly with the UK MOD.

We also have a portfolio of adjacent activities. They're quite diverse and we serve customers in a wide range of markets including rail, power, airports, and emergency services. We also have engineering

activities in South Africa. Whilst these businesses perform well, have key Babcock traits, for example, critical engineering and have enduring relationships with their customers, their markets generally support margins that are lower than Babcock Group margin.

So our focus is on managing them for value by improving performance and efficiency and bidding selectively for work we can win on improved terms. Over the past 18 months we've also rationalised the portfolio by handing back to customers some very low margin contracts, and we've sold several small businesses in media, education, and facilities management.

The Land sector has revenues of approximately £1.6 billion, of which £600 million is defence, and £1 billion is in adjacent markets. The majority of that adjacent revenue comes from rail, power, airports, and South Africa. The defence business holds long-term contracts and these contracts, including joint ventures, operate at higher margins diluted by variable procurement pass-through revenue, and have lower capital intensity.

The adjacent markets generally have lower margins than Group but they also have the lower capital intensity of our defence business. Today, I would like to focus on defence but before I do, I'll give you a relatively brief flavour of what we do in some of these adjacent markets.

First, emergency services, a key Group focus. We deliver vehicle support and training to the emergency services. We have a 21-year contract with London Fire Brigade to procure and maintain all the 430 fire appliances at our dedicated workshops, and we also support over 46,000 items of operational equipment. For the Metropolitan Police we've successfully delivered vehicle fleet management for the past 13 years. We look after 3,500 vehicles for the most operationally demanding police force in the UK.

We also provide extensive training to the London Fire Brigade, working with over 20,000 delegates a year we deliver urban and command training to LFB at purpose-built facilities under a 25-year contract, and hot fire training simulating fires using non-carbonaceous technology. We are currently in the final throes of bidding for a new Metropolitan Police training contract to train new entrants to the police for up to 7 years and we anticipate the contract will be worth up to £180 million.

Our people are very passionate in their support of the emergency services. They don't see themselves as undertaking vehicle support or training, they see themselves as part of keeping London safe and of saving lives.

In our rail business, we've delivered track renewal and signalling services to Network Rail for the past 25 years. In January, we were successful in winning the north region, that's Scotland, for control period 6 and 7, a 10-year contract valued at £1 billion by Network Rail. Unlike the previous contacts, this new contract is on improved terms.

It's an alliance between Network Rail, ourselves, and our design partners, and we will all work together in that alliance structure with the clear obvious aim of delivering the services, but also to share potential upsides. So we will do that through a formalised gain share mechanism which means we will share in the benefits from the cost reductions we collectively achieve to help improve margins, and that's the first time that we've done that with Network Rail.

In airports we've delivered engineering support to Heathrow's complex baggage systems for over 25 years, and again we're now entering a new phase with our customer at Heathrow. We're competing

to be their strategic partner and to work with them to increase capacity as passenger numbers grow, and we anticipate that the future contract will move more to an alliance style contract.

In South Africa we provide and support mining and construction equipment. We are the DAF heavy truck dealer and we deliver engineering services to Eskom, the state power producer.

So turning now to my main topic, Land Defence, our defence business has leading positions in vehicle support and training for the British Army. What we deliver is absolutely fundamental to the Army. Without the provision of operationally ready vehicles and modern training their ability to conduct effective operations would be significantly impaired.

As you would expect, again our people are very proud to support the Army. They know that what they do has a real impact on national security. So much so that 10%, almost 10%, of our workforce are sponsored, regular, or volunteer reservists. So in times of national emergency those reservists would become regular soldiers under the command of the Army.

In 2015 we acquired DSG, the Defence Support Group. That acquisition will establish a deep and enduring relationship with the British Army, very similar to the relationship we've built up over the years with the Royal Navy. In terms of vehicle support, we maintain, repair, and overhaul almost all the Army's vehicle fleet, that's 32,000 vehicles ranging from Challenger II tanks and Warrior armoured vehicles, through protected patrol vehicles like Foxhound and Mastiff, onto Trojan which handles minefield clearance, and Titan which lays bridges.

We have real capability and expertise in this area. We have the technical skills and facilities to strip tanks back to bare metal and rebuild them, a complete base overhaul. We also procure critical equipment for the Army. Over the last four years, we've made 30 million individual parts available to our Army customer. That is currently pass-through revenue totalling approximately £200 million per year but it varies according to customer need.

In going forward, we hope to take gain share on this revenue and of actively working with the customer to put this in place. We also support the MOD's fleet of 2000 construction vehicles through a joint venture called ALC, that's a service that has operated successfully over the past 15 years, and I'll touch on the potential follow-up opportunity in a moment.

Our defence business is also the largest provider of training to the British Army. We deliver three quarters of a million training days every year to approximately 21,000 soldiers, that is nearly 25% of the total army strength. Our training contracts include Holdfast, a 30-year public-private partnership with the MOD for the Royal School of Military Engineers. We train engineers in skills ranging from specialist welding to creating battlefield obstacles.

We also provide and maintain all the infrastructure and facilities necessary to deliver that training successfully. We also train the REME, the Royal Electrical and Mechanical Engineers, and again that's a contract we've held for over 20 years. We teach soldiers how to maintain complex electrical and mechanical systems on military vehicles and weapon systems.

Now I'd like to turn to some of our core strengths. It's right to begin with our people. We have a highly experienced and technically capable workforce of approximately 3000. A lot of them are former

soldiers. They understand the ethos of the customer, they identify strongly with the Army's mission, and they genuinely understand the criticality of the work that they perform.

We utilise technology to maximise the effectiveness of asset support so for example, we use ultrasound scanning to establish whether there are cracks in armoured vehicles. In the past vehicles were overhauled after a fixed number of hours, now they are overhauled on condition when it's actually required.

We've installed HUMS, Health and Usage Monitoring Systems on 2500 vehicles. That allows us to gather data on the way that each vehicle operates and is driven and by analysing and modelling that data we can better assure the availability, reliability, and safety of the vehicles.

We have long-term partnering contracts with our customer that allows us to invest in the future. We're currently introducing a new integrated IT system into DSG, that's a Babcock investment of around £15 million. The new system will achieve economies in procurement and will contribute to better fleet management through new software on fleet management. It will also help us to bring about further back office rationalisation and thereby reduce cost.

What's our position in the Land Defence market? Well, in the UK very strong. We're the number one provider of vehicle support and training to the British Army but the customer remains under very real budget pressure. They are constantly looking to get the most out of what they already have. They aim to keep legacy platforms in service for as long as possible because they're faced with limited budget to acquire new platforms, and of course the new platforms they do acquire all become legacy assets over time.

In the training space in the UK, those same budget pressures will lead them to outsource more training schools, and the next step will then be to extend outsourcing in the individual training space into collective training, in which area they spend over £0.5 billion a year. So we've got real credibility and capability in delivery of UK outsource solutions and that positions us well for opportunities as they develop incrementally in the international environment, particularly in Europe and Australia.

Our established business model is based on long-term contracts. That means we can transform activities and deeply embed ourselves with our customer. Across defence most of our contracts are five years or more in duration but we have a number of long-term contracts, for example, RSME is a 30-year contract with 20 years left to run, and in RSME we've invested significantly in training transformation.

So by redesigning courses, introducing more blended learning, we've saved over 10,000 training days. With an increased use of virtual training we have on average reduced course lengths by 20%. Our contract has consequently freed up 300 Royal Engineers to return to the front line. It's allowed the redeployment of over 400 civil servants and it has led to the disposal of nearly 1200 acres of MOD land.

We have a strong order book of £3.5 billion and a healthy opportunity pipeline. I think the notable point here is that almost a quarter of it is in the international market. We have a number of key opportunities which I'll return to in a moment.

Our strategy is to become the Army's indispensable partner across vehicle support and training, and I've laid out five key points as to how we'll achieve that, and I'll take each of those in turn. We will

continue to transform DSG. We will take a critical engineering capability, which was under MOD ownership for many, many years and create a modern and efficient business underpinned by investment in new systems and new processes. To achieve that, we are working very closely with our customers, so that's both the Army and defence equipment and support, and we're working together as part of the cabinet office Strategic Supply Transformation Programme. We are jointly - and jointly is the important word here - redefining the processes of the business, of the Army and of the E&S.

The Army is now forecasting three years forward. It's the first time that they've ever done that. We have a Joint Service Manual in the process of procurement, and we're now redefining the KPIs to reflect what's truly important to the Army in terms of output. And that work will conclude over the course of this calendar year.

In training, our aim is to further extend our individual training activities and develop into collective training. Recently, the customer has outlined the potential scope and timelines for outsourcing the Defence College of Logistics, Policing and Administration, as for the individual training, and a competition has also now been initiated for industry partners to deliver collective training from 2023.

So what kind of opportunities do we see in going forward? Well, through our transformation programme, we will bring our expertise to bear on the DSG procurement activity and to take gain share on the £200 million of pass-through. Last year, some of you may recall that the strategic support supplier initiative, SSS, was cancelled. One of the key reasons for that was the fact that a radical change in delivery at a time when we were so heavily engaged in the transformation process would have been a severe distraction.

Our expectation is that over the next few years, the good ideas that we had to deliver savings and improve effectiveness will be adopted incrementally by the customer, and they have appointed someone to work with us on those projects. Through DSG, we've already secured additional business, garrison support at Leconfield, support to the Protected Mobility Fleet and support to vehicles and equipment held by [Remy 1] Division, and we anticipate further opportunities. So by way of example, we currently overhaul the Warrior. That vehicle is going through trials between the MOD and the OEM to determine whether it will be upgraded.

If the upgrade goes ahead, we'd anticipate preparing the tank for the new turret and gun. Alternatively, if the CSP programme does not go ahead, we would anticipate the base overhaul of the Warrior to take a non-CSP platform out to 2040. As the Challenger life extension programme trials progress, we're also in a good position to undertake the base overhaul and associated work to prepare the Challenger for upgrades.

And outside of DSG, I referred earlier to ALC, the vehicle support contract for the Army's construction vehicles, which expires in 2021. We're currently bidding for the next generation of that support programme, called Miter, and Miter has been expanded from what was ALC to include the provision of the customer's mechanical handling equipment, and we expect it to be valued at around £400 million for a 10-year term. We're one of just two bidders for the final stage of that competition, and we anticipate a customer preferred decision in the second half of this calendar year.

Overseas, we're confident that the credibility we've established with the British Army will position us well as European forces begin to outsource. That is likely to be an incremental evolution in approach, but there are clear signs of momentum. In France, the Army has announced it intends to outsource the maintenance of approximately 50% of all its vehicles by 2025. They have the same size fleet as

the British Army, and they have the similar operational challenges, and we've already hosted the French general responsible for that activity at our DSG sites. And in Australia, we've already been successful securing a £75 million to provide ground support equipment, and a contract to provide counter-chemical, biological, radiological, nuclear and explosive asset management to the Australian DOD, and we are now imminently awaiting the provision - the issue of a new tender for the support of construction vehicles.

So our close, long-term relationship with our customer, our investment in IT, the collaborative redefinition of collective processes, the utilisation of technology and design expertise in training all position us well to continue to deliver operational excellence. So to recap on the key messages from myself, our clear focus is on the defence market, where we have deep capability. Our aim is to become the British Army's strategic support partner, just like the position our naval colleagues have achieved in the Marine domain. To achieve that, we will transform DSG in close collaboration with the customer. We'll extend our position as a leading provider of individual training and leverage that position to secure a role in collective training.

We're capitalise on our UK credibility and capability to take advantage of international opportunities as they come to market, and we will run the adjacent markets for value, sustaining margins, by driving performance and efficiency, bidding selectively and continuing to exit small, non-core areas where appropriate, all of which will translate to a CAGR of around 3% and margin sustainment over the medium term.

Now, I'd like to hand over to Roger Hardy to take us through aviation.

Roger Hardy

Chief Executive, Aviation

Thank you, John, and good afternoon, everybody. My name is Roger Hardy. We're going to talk about aviation next. The photograph that I've got as my opener is the flight line at Cognac. Many of you who have been following us for the last few years would have heard a lot about the FOMEDEC contract. Well, FOMEDEC contract has now gone operational. All 17 of the new PC-21 aircraft are here, proudly at Cognac. The simulators are delivered. The students are flying operations training for the first time.

In aviation, we do three things. We save lives, we protect communities and we support defence. We save lives in two areas, in emergency medical services but also in search and rescue. We protect communities in Europe and now in Canada with our aerial fire fighting operations, and we support defence by supporting primarily the Royal Air Force l'Armee de l'air in France.

Let's take a look at a typical day within Babcock Aviation.

[Video playing]

Babcock delivers indispensable services to communities throughout Europe, Australasia and now in Canada. That was filmed in Italy, in flying training in RAF Valley in Wales in France, emergency medical in [Rejas and Harris] in Spain, and the last shot was also in Spain. That was a Babcock rescue swimmer on the end of a line from a helicopter operated by a winchman on the helicopter, a Babcock person,

maintained all by Babcock and flown by a Babcock crew. That was live footage from a live rescue. This is a 24/7 operational - those teams were on duty last night, and they'll be on duty again tonight.

Safety is vital. It's vital to the patients that we carry on our aircraft. It's vital to our own crews and also customer crews, where customers deploy their people on our aircraft, and it's vital to us as a company. Operating aircraft is a privilege. It's a privilege that you earn by having good procedures, a strong track record, the right culture in place throughout the business, and we are certified by the regulatory authorities of 11 separate countries.

Our strategy is a simple one. Firstly, to become the largest aerial emergency services in the world, to grow our share in the countries we're established in, but also to enter new countries and regions, and I will break down that a bit later on. Secondly, to develop our defence business, but also in new international markets, and flying training, but also in maintenance, repair and overhaul, to build in our pipeline, and to use our scale to become the most efficient operator in our sector.

This is an international business. In last financial year, FY19, over 60% of the revenue from the aviation sector was outside of the UK. In Europe, as you can see from the map and you might have seen on the maps outside in the foyer, were operate in France, Italy, Spain, Portugal, three of the Nordic countries, Norway, Sweden, Finland, island UK, but also now in Canada, with our new firefighting operation, which went operational on 1 April, and in Australia, with EMS and also some offshore work. We have over 300 operational sites across the world. This is a scale business, and it is an internationally focussed business.

But in each country, we run them as local businesses, and that's really important for us. So if you take the French business, it's run by French nationals, managed by French nationals, incorporated in France and certified by the French regulatory authorities. Each country is a local business and is seen as such by everybody in the country.

I'll expand on these core strengths in the next few slides. Technology and expertise, I'll talk about ownership of infrastructure and assets, in particular fleet, and I'll also talk about our operating model. Technology and expertise on the left-hand side for emergency medical services - in most countries, this is a very different system than that which most of you will be familiar with in the UK. In the UK, it's charity based. In most countries that we are working with, it is either nationally governmentally funded or funded by a regional government. The level of investment is very different, and the type of service that is required is very different.

The reasons for this are in many of the countries, it takes a long time to get to hospital via land ambulance, and often, the only practical way to do this in time for a patient who might have critical injury or need critical care is by air. And if you take probably the two most sophisticated services at the moment, those of Italy and Sweden, the aircraft we operate are actually sophisticated emergency rooms in the air. We are undertaking medical intervention in the air, sometimes with customer staff from hospital who are trained with us, sometimes by our own medical staff. We employ doctors, nurses, paramedics.

These are medical suites which are modular, and we design. We also are looking at the technology of telemetry of patient data back to the hospital, so when the patient arrives in the real emergency room, the ER team know the condition of the patient before they arrive. That's quite key. If you take some

of the hospitals, and there's a few in Italy that are a good example, the helipad is right above the emergency room, and the patient goes straight in.

The other key part of technology and medical services is the ability to get to the scene, and there are two parts to that. First, the availability of aircraft. You have to have the aircraft available. Our availability metrics on our emergency medical services helicopters is outstanding. Helicopter availability in France of over 98%, that is industry leading.

We are doing 24/7 operations in some countries with night-vision goggles. That requires technology and training for its use and also performance-based navigation, which is a way of being able to get more effectively to more places than you would do under some traditional methods of flying. On the right-hand side, you'll see a photograph of a fire. These aren't grassfires that we're dealing with, our peat fires on a moor. These are utterly catastrophic events. This is a photograph taken by one of our aircrew. This is a fire in Portugal. This was fought by our team in Portugal, but we also deployed aircraft from Italy to fight this fire.

And firefighting isn't just about an aircraft. It's about a system. It's not just about dropping water. It's about knowing where to drop it, measuring the effectiveness of the drop. Some of you would have seen some of the tools and the techniques out in the demo room earlier. Night firefighting is a new area for us, and also the ability to monitor and predict the fire at night. This fire I've used the photograph from, the fire front moved at 40 kilometres an hour, so between dusk at nine and first light, around 3:30, this particular fire had moved 160 kilometres. Tragically, 46 people died in this event, because they didn't know it was coming.

So this is a major investment in capability, which is needed by many countries in Europe, but also more increasingly, in Canada and Australia, and the [lure] that you saw earlier and John talked about in his presentation is a key part of that. If we know where the fire is before first light, we can deploy aircraft within the first hour, rather than having to work out where it went in the night - even better if we can fight fire at night.

Like the rest of Babcock, this is a great team. We have 1300 pilots. We have 120 medical staff, which I mentioned earlier, but also a team of around 3000 engineering, maintenance, the base teams, delivering those high aircraft availability levels, but also airworthiness, the operational control centres. I was delighted that the OCC Manager from Alicante was outside in the demo room today. This is an important part of our work. The engineering teams keep the crews safe. Their job is to make sure the aircraft is safe during operations.

A core strength is our fleet. We have a fleet of over 530 aircraft. We either own or operate those. There is a mix. I'll talk about the mix in a few slides' time. We have a lot of diversity of aircraft types that you'll see on the left-hand half-ish, and two-thirds of the slide, our helicopter fleet, and the right-hand third, our fixed-wing fleet. Diversity of fleet gives us availability gains, but it also brings increased cost. Having 37 variants of aircraft is too many. For every type of aircraft, you need the right tooling, you need the right engineering training. You need the right pilot training and certification. We wish

to reduce our fleet variant type. We're aiming to go from 37 to 12. We think that gives us greater cost performance.

This is achievable. Quite a few of those fleets are ones or twos, and some older models are being phased out, so that is a realistic and practical target for us to get from 37 down to 12.

Five-hundred-and-thirty aircraft takes a lot of management of the fleet, and I thought I would describe our ownership model and how we approach this. So in the middle is an indicative graph showing aircraft numbers, total. This is helicopters and fixed wing. Green is what we would have firm requirements for because we have a contract, and blue is our anticipated increased demand, and it is indicative, as I mentioned a second ago.

We own some fleet. So fleet that we own, it's on the balance sheet. That works very well for us. The difficulty with owned fleet is at the end of the contracts you are using it for, you have the risk of the residual value or the value on your balance sheet at the end of the time where you've used the aircraft, so that is more difficult to predict. We have some fleets which are customer owned. That works well for us. A good example is the Canadair fleet, the yellow aircraft you see images of dropping water, the same aircraft in Canada as well, actually. Customer owns. We operate and maintain. At the end of the contract, the customer takes back. Sometimes, we lease them from them. Sometimes, they retain ownership, but that works very well for us, and it's normally unusual aircraft with niche capability.

We have leased fleet, which we operate and maintain. They may have power by the hour requirements, either on the engine or the airframe, and we will mostly match lease length to contract length. That works very well for us. We don't have any depreciation or residual value risk, and we don't have the problem about what to do at the end of the contract. It gets returned to the lessor. There are some short-term leases, very short term, pay as you use. They're very rare, but for our new aircraft requirements, leasing is our current default position. Its less available in military-related activities, although we suspect that market might open up a bit more, and we again mostly match lease length with contract length.

Our operating model is a key strength for us. We have long-term contracts. Some of our contracts are 10 years. The Canada firefighting is 10 years. Norway air ambulance is 10 years. Some of these are long-term contracts. The typical length is about three to five, but there are some - we're seeing evidence of a drift towards longer contract, which is good.

We're integrated into the customer setup. If you went into ambulance control in Como, for those who've been there, you would have seen an ambulance control team who are health service employees, and also our Babcock crew, with a Babcock helicopter outside. This is a fully integrated setup.

We have four operational control centres, Alicante, Staverton in the UK, Ciampino in Italy, and just about to go operational on 1 July in Tromsø, in Norway. These are availability and outputs based contracts, almost exclusively won in competition, so these are all competitively one, where we either have a KPI for availability of aircraft, and we certainly do that for military, and quite often, there's a mix

of a monthly fixed standing charge and a variable flying rate. That's how the contracts tend to work. Our bid-win rate is excellent. We achieve very high levels of customer satisfaction indeed.

We talked about focus markets this morning. Aerial emergency services and defence are the two, are the Babcock focus markets which we play in, so let's talk about aerial emergency services market first.

Ten-year addressable market number, £7.5 billion. We have a medium market share. It's high in Europe. There are some countries where we do have higher market shares, but there are also lots of opportunities for us still, and we see growth coming from two areas here. One is more countries are choosing to invest in their air ambulance capability than have up until now, so we see a geographical expansion of this marketplace, and we also see more sophistication, and that's good for us, because we can add more value with those increased values of services, and because we're one of the biggest, we can make a better investment case for ourselves in investing in those new services and making sure we can deliver that better service.

Aerial firefighting is a £5 billion addressable market over 10 years. Our market share is medium, again, but this is a growing market. The increased spend in aerial firefighting is very significant at the moment. We are operating in Europe and in Canada. We will be operating in the United States this year. Part of our arrangement tin Manitoba, we are allowed to, and obliged to under the contract, to deploy that fleet of customer-owned aircraft leased to us in the United States in the shoulder season, so that will be a first for us this financial year. s

Search and rescue is showing increased outsourcing. We do all the search and rescue for Spain. SASEMAR is our customer. We do oil and gas search and rescue in the UK, but we are seeing more of an indication, and there's bids in the pipeline as customers are choosing to use privatised services to do this, rather than military, because all the case studies would show that it is cheaper for a company to do it rather than to use military personnel.

So our aim in emergency medical services is to be number one. That is a realistic proposition. We are the second-largest provider in the world today. The largest one is in America. They are a company which only operate within the United States. They do not operate outside. We have chosen not to operate in the United States. It is quite an unattractive market for us, the dynamics of the market and the way it operates, so our aim is to become number via continuing to expand across Europe and in Canada and other countries, as they move forward, building on those technical advantages that we have spoken about already, as well as the scale of our capability, which should help us become the best cost performer as well.

In aerial firefighting, our aim is to become the leading system provider. I specifically stress that word, system. This is not just about an aircraft dropping water or retardant. This is about the fully developed system of understanding where the fire is, being able to map it, predict it, plan the water drops or the dispersants or whatever the material may be, to make sure that the fire is out, quickly and effectively.

We have one large competitor, who is based in British Columbia, in Canada, between - you could work out on stats which one is the biggest, us or them. We are delighted to have won Manitoba in Canada in competition with them and against everybody else. We won that global competition via our proven capability, our professionalism, our comparison sites, because our operation is very similar to that run in Italy, and the fact that we offered best value.

Defence is a bit more complex to explain, so I will split defence into four areas. Firstly, flying training. Air forces do two things. They either train or they go on deployment, and they don't go on deployment

that often, fortunately, so air forces spend a lot of time training. That's a good business for us. We've got a good market share. We'll see that in a second, and we also are supporting the two largest air forces in Europe, the Royal Air Force and the French Air Force, two organisations which most of the rest of the world looks to for leadership in how these things are done.

Aircraft support, we do. Air station support, we do, and maintenance and refit we also do. Some of you I think will have seen - or images, and you certainly saw videos of some of the maintenance work that we do in ships and submarines, but we also do this on aircraft, and here is a very short clip of some of the work we've been doing on military aircraft.

[Video playing]

Short clip of a life-extension programme that we did for seven helicopters for the Spanish Navy. This was a 15-year life extension on aircraft which were originally manufactured in the 1970s. That upgrade included a complete rewire, state-of-the-art avionics, a new tactical mission system and was undertaken at 30% of the cost of a new aircraft, so it makes financial sense for many air forces.

Flying training, 10-year addressable market is about £10 million. Our market share is medium. We have got an excellent position in the UK, fantastic, with our joint venture partners within Ascent, but also with Babcock within our own right, and also with the French Air Force, but there's lots of growth potential. We see this an area which Ministry of Defences are choosing to say, we can outsource this. It works. Look at how the UK and how France are doing it.

Aircraft support, we have quite a low market penetration at the moment, and we see opportunities in the countries that you can see on the right-hand side. Airbase support, well, we've got 300 of our own bases. Some are very small. Some are very big. We know how to do this and we can bring cost-effective solutions to air forces for this, and maintenance, repair and overhaul, you've just seen some of that. Our aim is to become a leader in aviation defence training and in maintenance, building on our strength today with our 2000 employees in the system, with a full enter and offering, Canada, Spain, Australia.

The aggressor air, also a very interesting area. Some of you will be aware, there was a bid being run by the MOD called ASDOT, and this is you run the air force that the Royal Air Force practices fighting against. Sometimes - if you've seen the film Top Gun, you'll get it exactly. The MOD have paused that programme, but others have not, so there are live bids currently underway where aggressor air work is being outsourced, and we are bidding for that work.

I haven't talked about oil and gas up until now. This is a business which we have had for a while, and this is not a strategic priority for us. We will continue to run this oil and gas business. We have refocused the cost base, right-sized the fleets. We have sold some aircraft. We have repurposed some others. The photograph on the right-hand side is a Super Puma, which used to work in oil and gas. It was painted white and blue in Aberdeen. It's now painted red and is operating firefighting in Spain, and it's very good at that as well. So our geographical focus for this is North Sea, Australia, where we do oil and gas work, and possibly into the Nordics, but this is - we'll do this to make sure we get appropriate returns, steady revenue streams, but this is not a strategic priority for Babcock.

The characteristics of our aviation sector, I think I've probably covered most of this. The key takeaways from this slide is that international element, over 60% of revenue internationally last financial year, and

that will go up rather than going down. This is predominantly in emergency services business. You can see from the revenue split it's almost 50% in emergency services, with a very strong UK business and a building French business.

Strong order book, £5 billion, strong pipeline at £5 billion. A lot of work in the pipeline is military, so it's not just emergency services. There's more of a swing in the pipeline to that. Some of these are big, long-term contracts, which are currently in the pipeline, and I'll describe that as a healthy position. While the growth prospect looks very good, we also have good opportunity to reduce our cost base further, to defend our margins, which have been healthy, by making sure we get the full value out of our scale.

So an example of that is within Europe. If I exclude the UK for the second, because who knows what will happen with Brexit, if I exclude that but concentrate on the rest of Europe, we have operations in a number of countries, all with different certifications by an in-country aviation authority. Well, the regulations have changed, and there is now an opportunity to bring that together under single authorisations, and we will do this as an appropriate place to try and reduce the number of operating companies, with all the overhead that comes with that, within our European operation. So I can see a position over the three to five-year horizon where we will have operations in Canada, which has its own regulator, operations in UK, if UK is separate from European safety authorities, in Europe and of course in Australia, which has its own.

We've talked about the fleet rationalisation, 37 variants down to 12, good opportunity to save money. Those pilots are key. Having the aircraft doesn't mean anything if you haven't got the people who are trained and skilled and willing to fly in what can be quite difficult flying conditions. This isn't press a button on an airliner. This is you're undertaking search and rescue in bad weather at night. You're firefighting. This is interesting flying, but it's also demanding on the pilot cadre, and the pay and retention for pilots is key.

Centralisation of maintenance, I think we all see that, and making sure that we continue to put our concentration and place the value on those who do the work for us, the front line, the pilots, the co-pilots, the winchmen, the doctors, the paramedic, the rescue swimmer who went down in the middle of the night into a freezing cold Atlantic Ocean to save someone.

Our strategy is simple. Focus on defence, develop that market, become the largest aerial emergency services provider in the world, continue to grow our business, and our medium-term target is around 5% CAGR revenue growth. I'll finish by describing, if I may, the photographs on the right-hand side of this picture. This is our latest delivery. This was two and a bit weeks ago, I think. This is a Latitude jet built by Textron in the States and fitted out by LifePort in the States. It's the first medical fit out of a

Latitude jet. It was at the Geneva Air Show two weeks ago. We had a two-week gap in our training programme.

It may appear at the Paris Air Show, if we can get the right slot again in two weeks' time. We'll do a slow fly past. It won't be on static display. Widely acclaimed, though, and I think we would share this view as the best medical equipped aircraft in the world today. This is a fantastic piece of kit.

On 1 July, this is being deployed into the north of Norway and will go in between northern Norway and Svalbard, which is 80 degrees north. That is a long way and very cold, and it will help us save lives for the people in that region. Thank you very much.

Q&A Session

Archie Bethel

Thank you, John. Thank you, Roger. Lots of very good presentations. Okay, so we reach the second slot. We're running a little bit tight on time, but I think we've got the time for questions and answers. So again, same format as before. If you want to raise your question and direct it to one of the guys, feel free to do that. I've got a roving mic this time in case the technology lets us down again, so think we're going to have our first question here. Thank you.

Suhasini Varanasi - Goldman Sachs

Hello? Yeah, good afternoon, Suhasini from Goldman Sachs. Just a couple from me, please. One is on your medium-term revenue growth targets that you have for the different divisions. What are the kind of risks that you see for the growth medium term? Is it political? Is it changes in political leadership, global GDP, change in outsourcing trends? What can affect this, and has that been factored into your growth? The second one is on the free cash flow target for the medium term, maybe one for Franco. You have a £1.4 billion target over the next five years. Do you plan any restructuring, business exits, near term, medium term, and does the free cash flow target include this or exclude this, please? Thank you.

Archie Bethel

Roger, you take the first one, and Franco, you can get ready.

Roger Hardy

So the risk to the growth, it's a good question. Yeah, there is some political risk in this. As we moved internationally, there is more of a question in some countries about that insourcing, outsourcing risk, and we understand that in the UK, and in my experience, I've been working in defence and I've been working in civil nuclear, and I know it's very political about what happens.

What I didn't realise is that health is even more political about that insourcing, outsourcing decision, and we have issues all the time about whether they want to insource or outsource some of the medical

work or not. We think we understand the countries that we work in, but there is always risk that politics and election might change the landscape.

However, I'm convinced, and in each country, when we do the maths on it, every time, we can demonstrate that we can do a better service for less money than if someone does it insourced. So if you take away the political ideology, if it's on the maths and we can influence it correctly, the outsourced provision always works. That's the biggest risk, I think, for the aviation business. John, would you want to?

John Davies

I'd probably say much the same as Roger, but possibly in a more brief way, which is pace of opportunity I think is the key issue. Your question was have we factored that in? We're reasonably familiar with the speed at which some of these projects evolve, so the answer to that is yes.

Archie Bethel

Thank you, do you want to, Franco, respond on the cash?

Franco Martinelli

Thanks, [Susi]. I was waiting for later on in the afternoon to give all my answers, but I'm happy to step in early. The answer is, there's no significant restructuring. There's nothing, and the cash flow target is a free cash flow target that we expect to generate over the period, so we're pretty confident with that number, and I'll explain more later why that is. Okay.

Archie Bethel

Okay, other questions? Allen?

Allen Wells - Exane BNP Paribas

Hey, good afternoon. Allen Wells from Exane BNP. Two quick ones. Firstly, just on the aviation business, there was a slide obviously about moving to reduce the number of operating countries in the division there. We've obviously had the Brexit cost associated with that announced at the last or prior to the full-year numbers. Are there any costs associated with that? You have reduction, simplification that we need to be aware of. Second question, I just noticed in one of the DSG slides, there was a comment

about £15 million investment in new IT. Can you confirm, is that an investment that's been made or is going to be made, and how do we think about that as part of the broader CapEx plan? Thank you.

Archie Bethel

I'll take that first, the investment in DSG. That investment has significantly been made. The end date for rollout is November this year, so we're well down the route of making that investment.

Roger Hardy

On restructuring and certification, we'll be very careful about how we do this. This is a new set of regulations which has come in. No one's done this yet, so we will be very measured about our approach to it. The effects that I'm after is being able to move aircraft across boundaries from country to another, which is difficult to do today under our certifications, and also the same with pilots. So I want to be able to get more fluidity of deployment of assets and people. I'm sure that depending on the method that we use and the pace that we do it, we'll assess the costs required to change against the benefits at the time. But we do have to be quite careful with this programme, because we've only just gone

through the Brexit-related change, and it's not the time to scare the horses tomorrow. Let's wait until Brexit's done, I think.

Archie Bethel

Another question? No? Okay, we're going to just have a short break this time, 20 minutes, and if you could be back by, say, 10 minutes to. Quarter to. Let's make it quarter to and we'll get finished earlier, so quarter to, if you could be back, thank you.

[Break]

Archie Bethel

Okay, well, welcome back. We'll move onto what will be our last presentation of the day and that's going to be given by Franco Martinelli who will speak about our business model. So, Franco.

Franco Martinelli

Group Finance Director

Good afternoon. My name is Franco Martinelli and I am the Babcock Group Finance Director. My task today is to pull together what you have seen during the day into an overall business model. How this affects the accounting and to set out our medium-term financial targets.

So, what I will cover is how the dynamics of the Group and our business model lead to the type of contracts that we have. A description of the type of contracts and the accounting that follows. How this differs by sector. How important capital spend is to our business model. Then what are my financial priorities. And finally, how that comes together into medium term financial targets.

Around 95% of our business is with government or blue chip organisations. We don't have bad debts and we don't have non-paying customers. The work we do for them is mostly critical and mostly complex and output based. This is particularly true in our three focus markets.

The nature of the work means it mostly has to be performed in long-term contracts. Know-how, investment in people, investment in capital, and a criticality of the work mean that a long-term view is needed. Over the length of the contract we expect significant change and so does our customer. The change and complexity and capability breadth required mean that we have to work in partnership. In partnership with our customers, we need to succeed together as you will have heard throughout the day. In partnership with the manufacturers, we have technical agreements with them all and you will

have heard from Jon this morning, this allowed us to become the technical authority on the platforms. Then in partnership with our joint ventures where extra capabilities required the win and execute bids.

Around 80% of our business in any one year is covered by long-term contracts with high visibility, high strategic importance and good margins. Around 15% is short cycle where it has to be won each year or where visibility is less than a year. Examples are rail and South Africa, mixed in terms of strategic importance and generally lower margin.

Finally, procurement-related revenue currently at zero margin with low visibility, there is potential to increase both visibility and margin for procurement work. This mix of visibility can create some short-term fluctuations in revenue but with limited profit effect.

We have a £17 billion order book which is - gives us confidence looking forward in terms of revenue and margin. I thought I would explain our bid governance process and how contracts get into our order book. We have a large and buoyant tracking pipeline but once a formal process begins, it transfers into the bid pipeline. Around 70% of the pipeline is new bids and around 30% is rebids. All bids over £25 million or five years in length come to Archie and I for approval.

Firstly, we focus on how we deliver the contract and then on the hurdle rates required. Finally, we focus on how we can improve the contract and how we can grow it. Our win rates of over 90% for rebids and around 40% for new bids maintain the order book.

In addition, we get large multi-year contract growth entering the order book. As we perform the contract, the order book transfers into revenue. Plus, in addition we get small contract growth and some short cycle work which doesn't go through the order book. There is good visibility throughout the process on margins and revenue.

As I said earlier, our critical and complex delivery means long-term contract accounting. I thought it would be useful to see how that works in Babcock. Revenue is relatively simple and is recognised as obligations are met and for long-term contracts these are typically met over time. They reflect the proportion of the delivery cost incurred over the total expected cost of the contract.

Bid costs are expensed as incurred but once a contract has been won, mobilisation costs will be incurred. These are expensed over the initial contract period, not the option years. Margin, as we have said many times is initially recognised at a lower level dependent on risk. A risk register is maintained and reviewed per contract. As risk is retired, margins increase.

Management of risk is a key group skill. There are multiple review levels, starting with a contract manager, then at business unit level, then at sector level and then at group level, which gives us confidence in our contracting position. Cash is dependent on contract milestones and payment terms

and will be lumpy. The more complex the contract the more likely milestones will move, and changes will need to be agreed.

Changes will generally be agreed by year end with half year a bit more difficult. We are seeing this as a government characteristic throughout the world. In March, one contract payment alone was £80 million. That was a record for us.

Our business model varies by sector. Marine and nuclear are the more complexing sectors and have more target cost contracts. Target cost contracts are those where targets are set, and upsides and downsides are shared with the customer. This form of contract promotes collaborative working and shared risks and shared outcomes. Performance for our customers will drive our returns.

Aviation and land have mostly fixed priced contracts. Their risks are owned and managed by us. Capital requires higher returns but is also a significant barrier to entry, with three of the four sectors owning significant assets. The combination of these factors and the high technology content in marine plus the procurement revenue in land explain the relative sector margins.

As you have already heard from John and Simon, Marine and Nuclear share unique infrastructure at Devonport and Rosythe. Again, you heard from Roger how the management of the aviation fleet is a significant competitive advantage and John mentioned our investment in IT to drive performance in land.

So, what are our financial priorities? Sustain margins at around 11%. I have already talked about how we do this through the bid process and in a minute, I will talk you through what else we are doing. As we are growing earnings, so must cash grow. We have done this well over the years and we will generate £1.4 billion of free cash flow over the next five years. Continuing to lower debt will increase flexibility. From financial year 20, we target to improve ROIC year on year. We are committed to a sustainable progressive dividend.

A little more on margins. Firstly, we have a track record of delivery within a pretty narrow band for a contracting company. We have an order book and a contract review process that gives us confidence on the existing contracts. We have a bid process that reinforces margins and we believe that our bid competitors have similar margins.

As you heard earlier, each contract will have an improvement plan for delivery and returns. Procurement is a well-developed function within Babcock with capability transformed in recent years. That gives us year-on-year benefits from our strategic suppliers. Group category management produces good deals, leverage throughout the group.

We have been consolidating and will continue to consolidate our IT. ERPs are on a journey from multiple to one. For HR and procurement systems, it's a similar story. Where appropriate we are consolidating the back office functions into shared service centres and we have more to do.

In summary, I have listed what all the sectors and the Group have been doing and will continue to do to maintain margins. As I said we seek to continuously improve contracts and continuously improve support functions.

Moving onto cash, we have delivered £368 million of cash over the last four years on top of £500 million of dividends and £200 million additional pension contributions. We have delivered £1.1 billion

of free cash flow over the last four years. We are continuing to focus on cash and expect to generate £1.4 billion of free cash flow over the next five years.

The capital allocation slide is the one you're used to seeing from us. Our priorities remain unchanged. The difference is that over the medium term our cash generation will give us the flexibility to make more choices. Again, to be helpful, I have pulled together the growth guidance you saw earlier from the sectors onto one page.

Hopefully you will agree that the sector presentations showed a high level of confidence and evidence of the achievable medium-term targets. This slide prudently does the math and brings us to a Group number of 3% to 4%.

This final slide summarises our medium-term financial targets. Achievable growth at sustained margins. Increase cash flow. Increase flexibility and of course improve ROIC, whilst having a sustainable dividend, this should drive value for shareholders and with that, I will hand you back to Archie.

Archie Bethel

Thank you, Franco. So, we reach our final question and answer session. I have allocated 15 minutes or so for that. I'm going to join Franco in other seat there so he's not lonely, and we'll be happy to answer any questions on this presentation or anything else that you've heard today.

Q&A Session

Joe Brent - Liberum Capital

Three questions if I may for Franco, it's your lucky day. Firstly, could you tell us what the capitalised mobilisation costs are on the balance sheet? Secondly, you had a pie chart showing the fixed price contracts by division, could you tell us what roughly fixed price contracts for the group as a percentage? And thirdly just to sort of - just a sort of general question, if you were to sell an asset now, what would you actually do with the cash?

Franco Martinelli

The capitalised mobilisation costs were disclosed in the year end results because we put the new IFRS 15 note disclosure, it's around £50 million. I can't remember the exact number, Joe, but it's in the - it's in there.

Fixed price contracts about 63, 64 compared to the - and the rest is target costs. We don't have any costs reimbursable really. So really that's the ratio.

And which asset am I selling? Sorry I didn't mean to be facetious, Joe, what I was trying to say is, look if we had some assets now and the de-gearing accelerated, I guess is the answer. Say we sold

something, yes, that would bring the choices forward and we would get into that choice sooner rather than later.

Kean Marden - Jefferies

Thank you. Just on the free cash flow guidance for the next five years, just to try and make sure we understand the components of that. So, CapEx to depreciation is dropping down to about 1 time in the March 20 year. So, within your assumptions for the next five years are we going to revert back to more like a 1.2 times ratio which feels a bit more consistent with the trend organic revenue growth of the business.

Therefore, if we back that out, would that suggest working capital of minus £20 million to £30 million i.e. the sort of normal trend that has been for the business for the last two years getting repeated over that period as well?

Franco Martinelli

I think the capital - CapEx and depreciation will be sort of in the 1.1 range. That's where I think. So somewhere between the two. I think on working capital, I've tried to explain that we are lumpy so you can get some ups and you can get some downs but over the asset - over the whole five years, I think a small outflow on average will be consistent with that number per annum.

Kean Marden - Jefferies

A small outflow each year or a small outflow in aggregate across the five years?

Franco Martinelli

I think that's the same thing almost, isn't it. I mean [inaudible]. I think we have prudently struck our £1.4 billion and we feel very comfortable with that number I think is what I would say.

Kean Marden - Jefferies

You can understand the sensitivity because obviously every six months, your working capital line gets over analysed to the nth degree. So just trying to basically get some perspective on that, that's why.

Archie Bethel

The working capital does vary but a fair - if you're growing at 3% to 4% which is roughly £200 billion, £220 billion additional turnover, everybody would expect there to be a small increase of working capital on that basis. It may be I'll guess maybe £15 million, £20 million but it would - might [inaudible] lumpy. I think we see that kind of figure most years and then some years it's bigger than that and then

the next year it's less than that. Timing is a big issue in it as well. It's not likely to be any different from what we've generally said.

Franco Martinelli

We always guide to about £30 million and we always beat it is the answer to that question, so I intend to beat.

James Beard - Numis

Noting the team's confidence in the businesses you've described today, what does the management team perceive to be the key risks/challenges for achieving the financial objectives or financial targets you've talked about just now.

And as a supplementary question, of the 10 largest contracts you have, what would be - how big would they be in the Group structure, if you like, in the Group and what would be their average duration? I'm just trying to get a gauge on the risks if you like in the order book.

Archie Bethel

I think Franco is working out the answer to that. I think on the bigger one in the risks. The risks of - are basically the ones that we have, it's mainly round about the overall economic environment of the economies that we're working in. The economies in Europe have been slow. They've had slow growth but still growing.

The UK has been - the growth is - yes, we'll see through Brexit how that sort of plays out, but I think a lot of our confidence comes from the fact that the services that we are providing are generally non-discretionary. It's difficult to imagine how bad things have to get before the UK starts to tie up its submarines or its ships or before across Europe, they start to not do emergency services, et cetera.

I think - I do feel we have a big, big strength in that we are shielded with the fact that most of the stuff in our three key core sectors are non-discretionary, they have to be done. You can't cut back on spend on nuclear sector for instance. There might be slowdowns in the decommissioning. There's variations in that. We try to factor that into our predictions but the levels that underpin what we are suggesting

today are the targets we are setting. I think we're quite confident that they can be achieved even in markets which are in economies which are still in a bit of turmoil.

Franco Martinelli

So just coming to your second question, sorry. The average age in the order book is about eight years. I'm going to use that as my answer. The top 10 contracts are probably £1.2 billion, £1.3 billion a year.

Rob Plant - Panmure Gordon

Has your view changed on potentially doing a share buyback given where the share price has gone and clearly your confidence in the medium term? Thanks.

Archie Bethel

I'd say that - I'd say we continue to review that. That's something that is part of our strategic strategy reviews we do. I think we've laid out what the capital structure aims are. We - there's another number of things we taken into account in terms of - I mean we have been very much on a reducing debt over the last few years and we've done that consistently whilst retaining this - a progressive dividend has been the main return.

We're also trying to factor in some changes are coming. The IFRS 16 standard which pushes - adds significant debt onto the balance sheet, through the capitalisation and leases. We are keen to see how the market reacts to that. On the face of it, it puts our gearing up quite a bit although from a cash flow point of view, it's neutral and they get a small uplift in profit. We would really like to see how that plays through. We will see how that - kind of happens.

But I think that happens in a timescale where we get past Brexit. Where again more and more certainty we think over the next 12 months and the current de-gearing rate, we then get to position where - well, maybe more certainty in the economy. We understand how the market is reacting to debt and the different types of debt including the IFRS 16. And I think at that point the rate that we'll de-lever and [inaudible] at that point in time, I'm pretty sure that the Board will be considering a shareholder return policy.

Sam Bland - J.P. Morgan

I've got two please. First one is on this short cycle and procurement revenue. I think about 20% of the group. I think that's caused a little bit of a headwind to revenue in the most recent year. Can you talk

about whether that's now at a lower - basically coming off a lower base and so the scope for it to cause problems in future years is lower?

Then second question is obviously you've re-based guidance going forwards for the year to March 20. Can you talk about whether the approach to that guidance this year has been different to what it was in previous years and to the extent that it has been different, how's it been different? Thank you.

Franco Martinelli

I'm going to do the easy one and then we'll decide who does the second one. Okay. The answer to that question is, yes, you're absolutely right, Sam. The key part of the revenue difficulties, shall we say, in terms of forecasting that we've had is in the short cycle area. If I just pick out - well, if I pick out three main areas. The procurement revenue in [MOD] was - we get very low visibility and it was lower year on year. I expect that to pick up and it doesn't really make any difference as I said in my presentation. Doesn't have any effect on profit so it's just there.

Again, in the other areas, rail was going through a transition phase between CP5 and CP6. That happens for a bit more of this year but then it gets going. So, I think it's going off the low base. South Africa, Eskom didn't have an outage all year and we're already planning the first one for this year.

So, I think, what does that all mean? I think you can't run without outages in South Africa. I'm sure Roger will back me up on this one. So, yes, I think the answer to your question was a long answer, but it meant yes.

Archie Bethel

On your second question about the planning this year, it has been totally different. It's been totally different because we have - last year was very much a transition year. We had - we tackled some really big problems. We tackled the helicopter - excess helicopter capacity issue through the EC225s. We tacked that. That's a one timer and we had to do that and take a - so and exceptional costs to do that.

We have come to the end of the aircraft carrier project and we have come to the end of the Magnox contract. So, we had a one-time profit last year on the whole [class] which doesn't repeat. So last year was a transition year in terms of us moving forward.

So, for the first time actually this year and the basis of the targets we've set today, we are looking forward at a kind of clean Babcock. We got rid of about £150 million worth of turnover from low performing, non-core businesses last year as well. So, we ended the year with a business, in my view, in much better shape in terms of the businesses that are in it, and the end of the head winds.

So really this year, when we started the planning process for the first time in a few years, we've been looking forward at what is the base performance - the performance of the continuing base businesses in our focus sectors, what's that likely to be like. That's been the big difference, in my view, what you're seeing is a [inaudible 338:34] now of looking forward at numbers that are not predicting another

Magnox and not predicting - we don't have another aircraft carrier that's - these were the first two to be built in 50 years. It's probably another 50 years before that happens again.

So, we don't need to worry about it. So, I think we've got a much more predictable steady picture that we've looked at and we have tried to be quite prudent about it to be honest.

Suhasini Varanasi - Goldman Sachs

Hi good afternoon. Just a couple of quick ones please. MSDF - the move to FMSP, the future maritime support programme, are the discussions on that ongoing with the government? Is there any update that you can provide on what implications you can see on the contract for the future? And just to clarify very quickly on the margin target of around 11%. Is it the plus or minus 50 basis points that you show on the slide? Thank you.

Archie Bethel

On MSDF and FMSP, MSDF contract ends April next year and we're well advanced through the negotiations of the replacement contract. So, it's a negotiated contract which will be finished [inaudible] and in time for next year. But it's progressing fine. No real difference. We still expect - that is being negotiated under ToBA so no real difference, significant differences from what MSDF was on.

Franco Martinelli

So, to the margin question, I don't expect it to be as broad as that. I thought actually for 10.5% to 11.5% with our type of business actually is quite a narrow band I think actually. I think it gives confidence into contract performance. It gives confidence into our conservatives in our accounting. I would hope to do better than that, but it was meant to show that we had a track record of delivery within a relatively narrow band.

Allen Wells - Exane BNP

A couple from me. Just follow up on Kean's earlier question on CapEx, Franco, could you maybe just help split out the gross versus net CapEx because obviously noted in the aviation contract - presentation sorry, there's going to be some rationalisation of fleet over the next couple of years. I just wondered if there's going to be a step up in the disposables number from the number we saw in the FY20 to offset.

Second question is on the balance sheet, I noticed that the new target is for a net debt reduction. You seem to have sort of stepped away from commenting around net debt to EBITDA. I wonder if you can

just comment on the medium term view on do you expect net debt to EBITDA on a like for like view to trend down over time?

Then very final question, just following up on the cost question on MSDF, you commented, Archie, that it's under the ToBA. Does that mean you've managed to I guess avoid some of the issues that the market has been focusing on on single source [inaudible] under existing contract?

Archie Bethel

I'll take the last one - the last point first. SSRO - ToBA is SSRO compliant, end of. So, our ToBA cost and structure complies with MSDF and with the SSRO and has since the beginning. So, there's no change in that there and not likely to be any change.

Franco Martinelli

On disposals, I think it would be a good place if Roger does manage to rationalise his fleet down from 37, down to 13 variants, but I'm not going to give you guidance as to how quickly he's going to do that at this point in time. So, I'm going to leave it as it is and have the normal gross CapEx versus disposals as the normal ratio that we've achieved in recent years. So, I'm going to leave it at that for now.

Net debt to EBITDA, it's partly because we're going to have at least three measures and we need to see how IFRS 16 comes out, how the covenant - sort of in the box that says we've got a covenant ratio, we've got an IFRS 16 ratio and we've got one with JVs ratio and it's too many ratios.

So, we need to focus, and I think - certainly on a covenanted basis we're going to continue to reduce net debt to EBITDA, I think that's right and I think we need to look at it and we'll look at it again in the half year. But generating cash is our key driver.

James Beard - Numis

Hi thanks. Just one from me on your improving ROIC target. You've obviously not put any numbers against that. So just wondering where broadly speaking you think you can get returns. So, are we talking a few basis points a year, or should there be a more meaningful improvement as profits grow over time?

Franco Martinelli

I think it - with the level of goodwill and quite intangible that we have in our balance sheet, a couple of percentage points a year is pretty dramatic. So, I think what actually is - it's probably sort of the half

percentage point-ish improvement a year, which I think will be very good and consistent with the earnings targets that we've put in in the cash flows. So, was that just the one, James?

Archie Bethel

I think there's someone else up there too.

Unidentified Participant

{Stephen at Close]. Going back to the issue of buybacks, I can see why you don't want to use debt. So why don't you issue a corporate hybrid bond which would be considered equity and take out some very cheap equity with what would be quite cheap debt/equity?

Franco Martinelli

I think we'll consider all options as we generate cash and we'll consider all options. So, as we increase our flexibility, I think that's right. I don't really want to go into the whole equity strategy but I think it's something we need to consider, and we will consider.

Kean Marden - Jefferies

This is from a shareholder, sorry, just texted me. So - and I do see his point because I picked this up from the slides as well. So your organic revenue guide slide that you put up, gave a 3% to 4% target - sorry trend growth rate with stable margins with a de-leveraging balance sheet so therefore one would normally expect the net interest to come down and therefore you'd expect the trend EPS growth to be

higher than the 3% to 4% range. But obviously this morning you outlined that it was going to be a 3% to 4% range.

So, his question is, why are we not seeing a faster rate of growth in EPS relative to that like for like growth range that you gave earlier?

Franco Martinelli

I think it's a fair question and I think the answer to that question is that we've struck our numbers prudently.

Archie Bethel

No more. Thank you very much and, Franco, thank you for yours.

Franco Martinelli

Thank you very much.

Archie Bethel

Okay, so let me bring the day to a close by making a few final comments if I may. You've sat very patiently, thank you very much, and you've sat through presentations, videos and demonstrations I think that highlight what Babcock is really about. I don't believe that there is another company in the UK, maybe anywhere actually that takes on as many complex and critical tasks on behalf of our customers. We certainly don't do easy.

Through the powerful video that we showed at the beginning, you saw how closely we work with our customers and you heard directly from them about the critical and important nature of the work that we do, both here in the UK and around the world. In the various videos shown throughout the day, we gave you a glimpse of the dedication, professionalism and often courage that our people show every day in supporting our customers.

I feel privileged and immensely proud to be the Chief Executive of Babcock and what makes me proud is the commitment and dedication of our people all around the world as they strive to deliver for our customers. Maybe we don't always get it right, but we always try our best to live up to being trusted to deliver and most of the time, we succeed in doing just that.

We have set out a number of new, medium financial targets for the business. Medium term targets including earnings growth, margins and cash generation, and we've openly shared them with you. We've also set a number of longer-term growth targets and we've shared these with you too. Through the sector presentations, we've demonstrated why we are confident that we will meet or beat these

targets and I'm sure that I will indeed be reminded of these targets at every results presentation from now on in.

So, let me finish now by returning to my summary slide and summing up the strengths of Babcock and some key messages from today. We have strong leadership positions in our three main markets, supported by our unique infrastructure and know-how. Our services are important and non-discretionary, and they are long term. Not too many companies can look at projects that stretch out for decades that we can.

Our customers, our customer partnerships are deep, they are long term and they're enduring and there's been significant growth in our international business. Today it has passed 30% and we are targeting 40% and we have continued to achieve robust financial results even in these times of uncertainty.

I think this all adds up to a pretty exciting company with a positive long-term outlook and more than enough new opportunity to pursue. We will continue to deliver for our customers, all of our customers. And then meeting and beating the targets we have set today, we will also deliver long term value for our shareholders.

Thank you for joining us today. It's been a full day and we appreciate your attendance, and I hope that you learned something new about Babcock. Thank you.

Ends