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Full year results

for the year ended 31 March 2020

11 June 2020

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Key messages

1. Results in line with expectations apart from COVID-19 impact in final two months of the year
2. Exceptional costs of £503m (incl. goodwill impairment of £395m in Aviation); net cash costs of £27m
3. No financial guidance given uncertainty of COVID-19, included as much detail as we can to be helpful
4. Deferred the decision on our final dividend
5. Aim to maintain as much of our capability and capacity as we possibly can
6. Remain confident in the medium term given our strong liquidity position, robust business model, record order book and pipeline, and focus on critical, non-discretionary services

Introduction

Where we are today

- COVID-19 impacts and uncertainty
- Defence businesses had a strong year and are well-placed
- Market softness to address in civil aviation and civil nuclear

Actions we are taking

- COVID-19 mitigations
- Deferred decision on final dividend
- Asset and goodwill impairment in oil and gas business
- Restructuring in Aviation and closer integration in Nuclear sector

Where we are going

- Progressing on our CMD growth strategy
- Focus on technology and international markets
- Record order book and pipeline
- Assessing longer term impacts of COVID-19

Our response to COVID-19

The health and safety of our employees, customers and supply chain partners has been our primary focus

- **Early February:** provided Italy, Spain and France front line aerial emergency services support including positive patient hospital transfer
- **Early March:** supported emergency services in the UK, the Nordics and Australia
- Enabled **home working** for thousands of our employees in the UK and around the world
- **In the UK,** worked closely with our customers to keep critical defence and nuclear sites operating
- Responded to the UK Government's **Ventilator Challenge**: designing and producing the Zephyr Plus COVID-19 ventilator

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COVID-19: critical work continues

Defence programmes continue across all four sectors

Defence and nuclear sites remain open reflecting the critical nature of our services

Group Impacts

- Lower levels of productivity as adjustments are made for safe working including social distancing and home working
- Lower levels of order intake than expected in short cycle businesses
- Financial impact in final two months of FY20
- Not yet able to accurately assess financial impact on current year (FY21): no financial guidance provided at this point

Sector Impacts

Marine

- Minimum impact on Type 31
- All ship projects continue
- Minimum impact on missile tube assembly programmes
- Minor impacts in Oman, Canada, Australia and New Zealand

Nuclear

- All submarine programmes continue
- Lower level of civil nuclear project work
- Headcount number restrictions imposed on certain sites

Land

- Minimal impact on defence
- Minimal impact on emergency services
- Reductions in civil training, airports, rail and power
- Lower equipment volumes in South Africa

Aviation

- Minimal impact on UK and Europe military air projects
- Lower flying hours in emergency services as lockdowns restricted public activity
- Lower flying hours in oil and gas

COVID-19: mitigation actions

Group actions

- Maximising working from home facilitated by effective IT and communications
- Safe environment innovations to address restrictions in social distancing and restricted movements
- Limited use of furloughing staff in a few areas such as our airports and civil training businesses
- Deferring non-essential operating and capital expenditure and tightening rules around spending across the business
- Senior executive management: temporary 20% reduction in basic salary and the annual bonus and pay rise has been deferred
- Non-Executive Board members: temporary 20% reduction in fees and no increase in fees for new financial year
- Decision on final dividend deferred until there is greater certainty in our outlook for the current year (FY21)

Sector actions

Marine

- Flexible working introduced
- Type 31 enabling construction work continues (critical activity)
- PPE, workshop reconfiguration, COVID-19 testing
- Safe environment initiatives
- Cost base reductions

Nuclear

- Flexible shift patterns introduced
- PPE solutions developed to partially counteract proximity restrictions
- Safe environment campaign
- Cost base reductions

Land

- Flexible working arrangements on a site by site basis in defence
- Furloughing of staff in civil training and airports
- Safe environment campaign
- Cost base reductions

Aviation

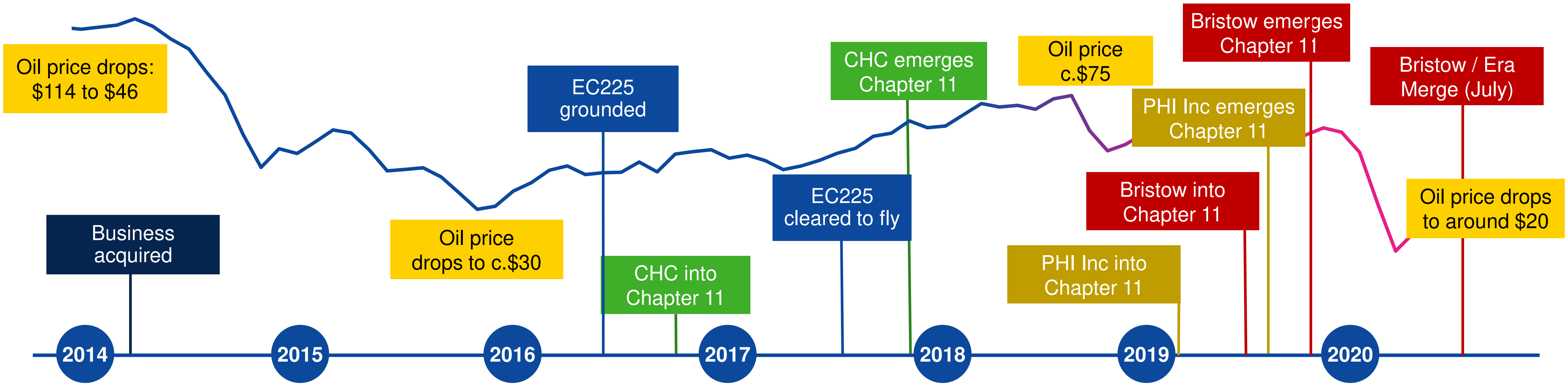
- Introduction of isolation stretchers in air ambulances
- Development of flexible cockpit separation barriers to protect flight crew
- Accelerating cost base restructuring plans across UK and Europe

Most of our businesses performing well

Marine	Nuclear	Land	Aviation
			
UK Defence	Defence	Defence	UK Defence
International Defence	Civil	Emergency Services	International Defence
Energy and Marine		South Africa	Emergency Services
		Rail	Oil and Gas
		Other businesses	

Actions being taken

Taking action: addressing the oil and gas market



Market conditions

- Oil price decline over period 2014 – 2020
- Competitors emerged from Chapter 11 with reduced debt and written-down assets
- Reset global market “heavy” helicopter pricing levels

Actions taken

- Reducing fleet: retired leases on 7 of 16 S92s and 5 of 6 EC225s
- Written down value of remaining fleet and impaired goodwill
- Exited Ghana and Congo
- Reducing cost base

Goodwill impairment

2014

- Acquired Avincis in March 2014
  - £1,759m consideration
  - Revenue of £487m in FY14
- Oil and gas represented 31% of revenue
- International 19% of Babcock FY14 revenue

Assumptions

- **Emergency services:** further outsourcing
- **International:** leveraging position for new territories
- **Defence:** build on defence expertise to enter new markets
- **Oil and gas:** increasing market share and underlying market growth

Today

- Aviation sector with £1bn revenue
- Grown Avincis businesses to c.£750m revenue per year
- Expanded into new markets: France, Canada and the Nordics
- Significant opportunities for aerial emergency services
- Oil and gas market deteriorated further, only 13% of sector revenue
- International 31% of Babcock revenue, 48% of pipeline

Today

- ✓ Emergency services growth
- ✓ International successes in Canada, Australia, the Nordics and across Europe
- ✓ Defence growing: UK, France, Canada and Australia
- ✓ Strong and growing pipeline of opportunities
- ✖ **Oil and gas:** severely deteriorated

Progressing our strategy

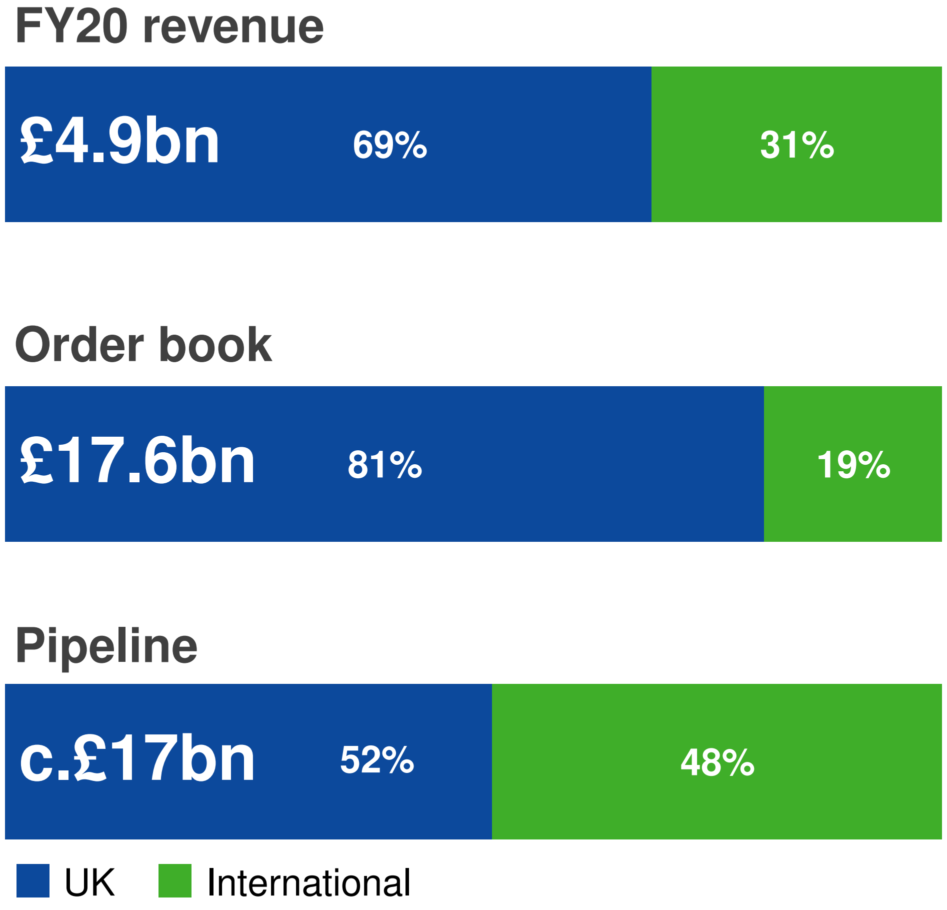
Strategic priorities:

- Deliver operational excellence for our customers
- Grow our international businesses in focus markets
- Grow market share and expand offering in the UK
- Develop our people
- Use technology to strengthen our offering
- Focus on value creation

Progress in the year:

- Continued development of Strategic Partnering Programme
- Aviation now in Norway and Canada
- Second defence contract in France
- Significant contract wins in the UK
- High growth in technology businesses
- Record order book and pipeline
- Completed sale of Context and Holdfast

Continue to grow international businesses



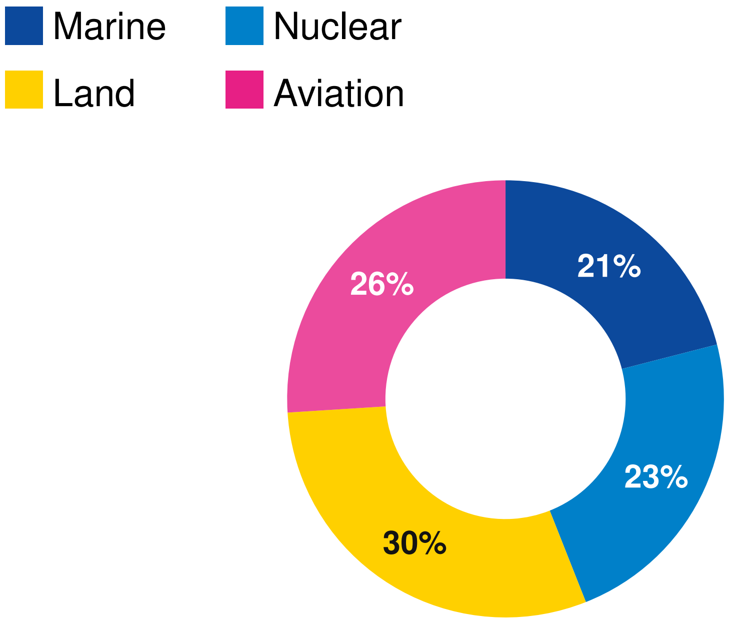
Commenced operations in the year in:

- Norway aerial medical services
- Canada (Manitoba) aerial firefighting
- Canada nuclear consultancy

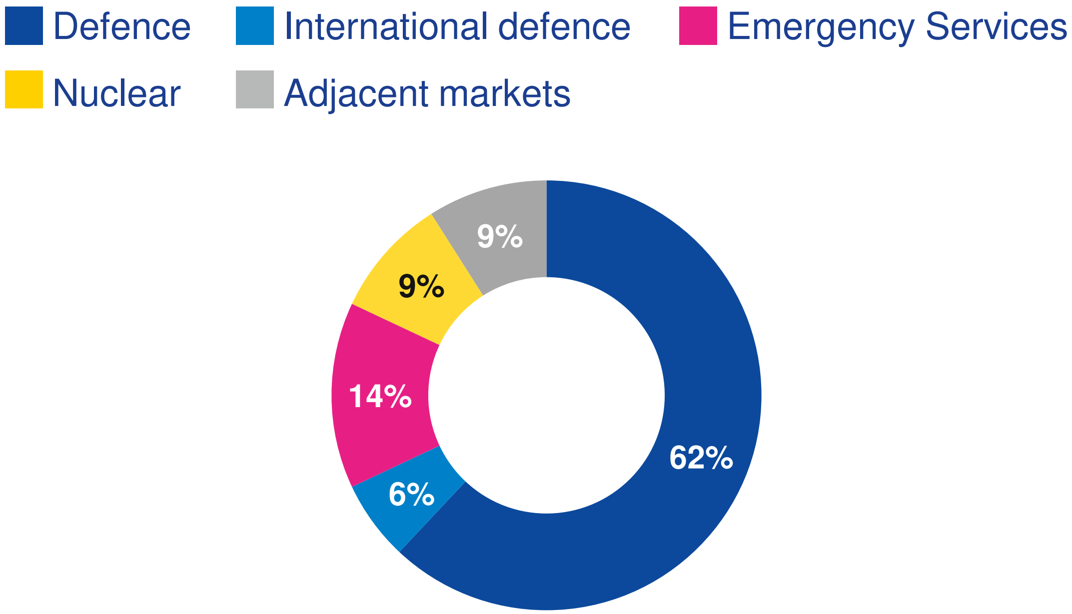
Existing market progress in the year:

- **France:** second significant defence contract: Navy search & rescue
- **Australia:** started new defence support operations in Marine (LHDs); secured major weapons systems role on new Attack Class submarine programmes and Land (CBRNE) equipment support
- **New Zealand:** awarded defence secure communications contract
- Continued delivery and further award of submarine missile launch tube assemblies to the **USA**
- Order book for **liquid gas systems** exceeds £100m
- Strong growth in **South Africa**: power generation and mining equipment

Order book of £17.6 billion



Order Book
£17.6bn

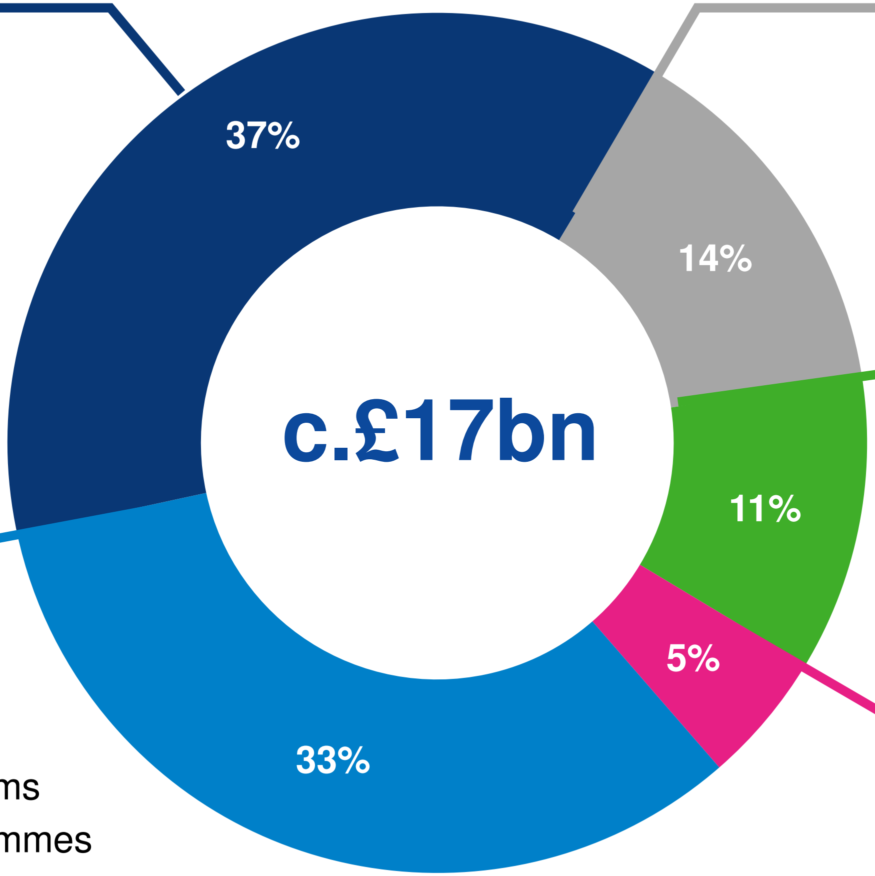


- **£5.3bn order intake over the year**
- **Order book increased to £17.6bn** with large wins in the year including Type 31, Met Police training and Australian and US submarine programmes
- **89%** contracts > £25 million
- Order book provides **base level of revenue for the future** which is then complemented by contract growth and short cycle work
- **Over £1 billion** of order intake this year came through contract growth and not through the bid pipeline

Pipeline of around £17 billion

Defence UK
- Marine training
- Nuclear infrastructure
- Submarine disposal
- Armoured vehicle sustainment
- Aviation support
- Defence comms and intelligence

Defence International
- Canada: military air training
- Canada: submarine support
- Australia: submarine systems and HF comms
- Australia: aviation and land support programmes
- France: aviation support and training programmes



Adjacent markets
- South Africa support
- Rail programmes

Emergency Services
- Canada, Europe

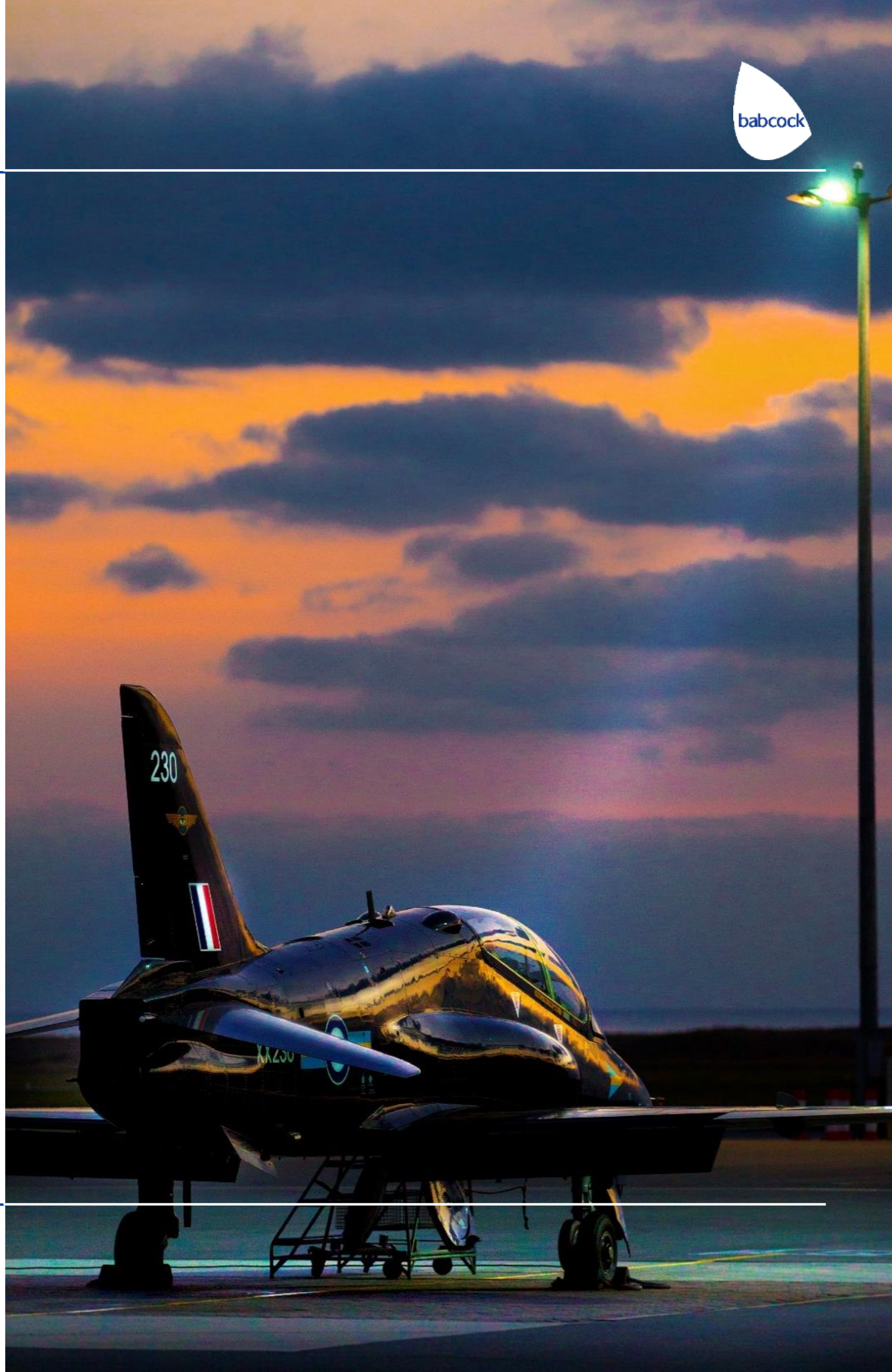
Civil Nuclear
- Decommissioning, services, new build
- Small international opportunities

Update on medium term targets

- Fundamentals of our business remain unchanged
- Stable customers in stable countries, long term order book and opportunities pipeline
- Medium term targets remain our aiming point whilst we assess medium term impacts of the pandemic
- Given the uncertain impact of COVID-19, our medium term targets will not be achieved in the next financial year (FY21)

Medium term targets set out at CMD in June 2019:

1. Earnings growth of 3% to 4% CAGR
2. Sustain margins at around 11%
3. Increase cash flows each year in line with earnings
4. Generate around £1.4 billion of free cash flow over the next five years
5. Continue to reduce net debt and increase flexibility
6. Improve ROIC from FY20
7. Sustainable dividend



Resilient business model ready for the year ahead

Strong performance across defence businesses

Significant order book and pipeline

Most of our work is critical and non-discretionary

Comfortable liquidity position

Financial review

Franco Martinelli
Group Finance Director

FY20 performance

Underlying revenue
£4,872m

Underlying operating profit
£524m

Total exceptional items
£503m

Includes Aviation goodwill impairment of
£395m

Total cash outflows from these charges of **£129m**, reduced to **£27m** after Context proceeds

Underlying free cash flow[1]
£192m

Net debt[2] of **£922m**

Underlying basic EPS **69.1p**

Full year dividend decision deferred

All results throughout this presentation are shown on an underlying basis unless otherwise stated and all percentages are calculated on non-rounded figures

1. After underlying pension payments in excess of income statement of £70 million
2. Excludes lease obligations. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.

Underlying results for FY20

	FY20 (£m) IFRS 16 basis	FY19 (£m) Pre-IFRS 16 basis
Revenue	**4,872**	5,161
Operating profit	**524**	588
Operating margin	**10.8%**	11.4%
Profit before tax	**428**	518
Basic EPS	**69.1p**	84.0p

The adoption of IFRS 16 increased operating profit by £23.6m and increased net interest by £24.7m, with a negative impact on basic EPS of 0.2p

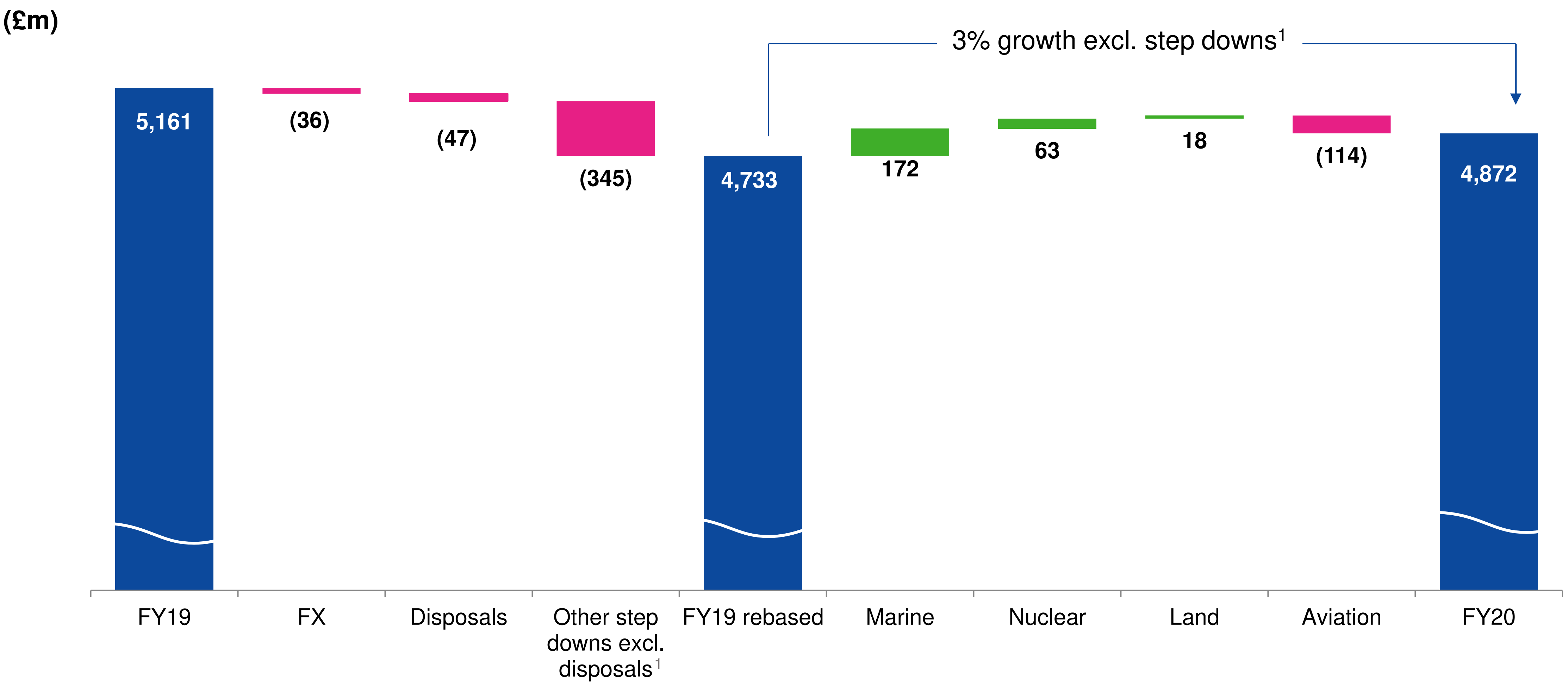
The impact of step downs incl. FX[1] in the year was to reduce revenue by £428m and operating profit by £60m.

- Revenue and operating profit reflects previously communicated step downs[1]
- Operating profit below original expectations due to Aviation weakness and impact of COVID-19
- Strong performances across Marine, Nuclear and Land offset by weakness in Aviation

All results throughout this presentation are shown on an underlying basis unless otherwise stated and all percentages are calculated on non-rounded figures

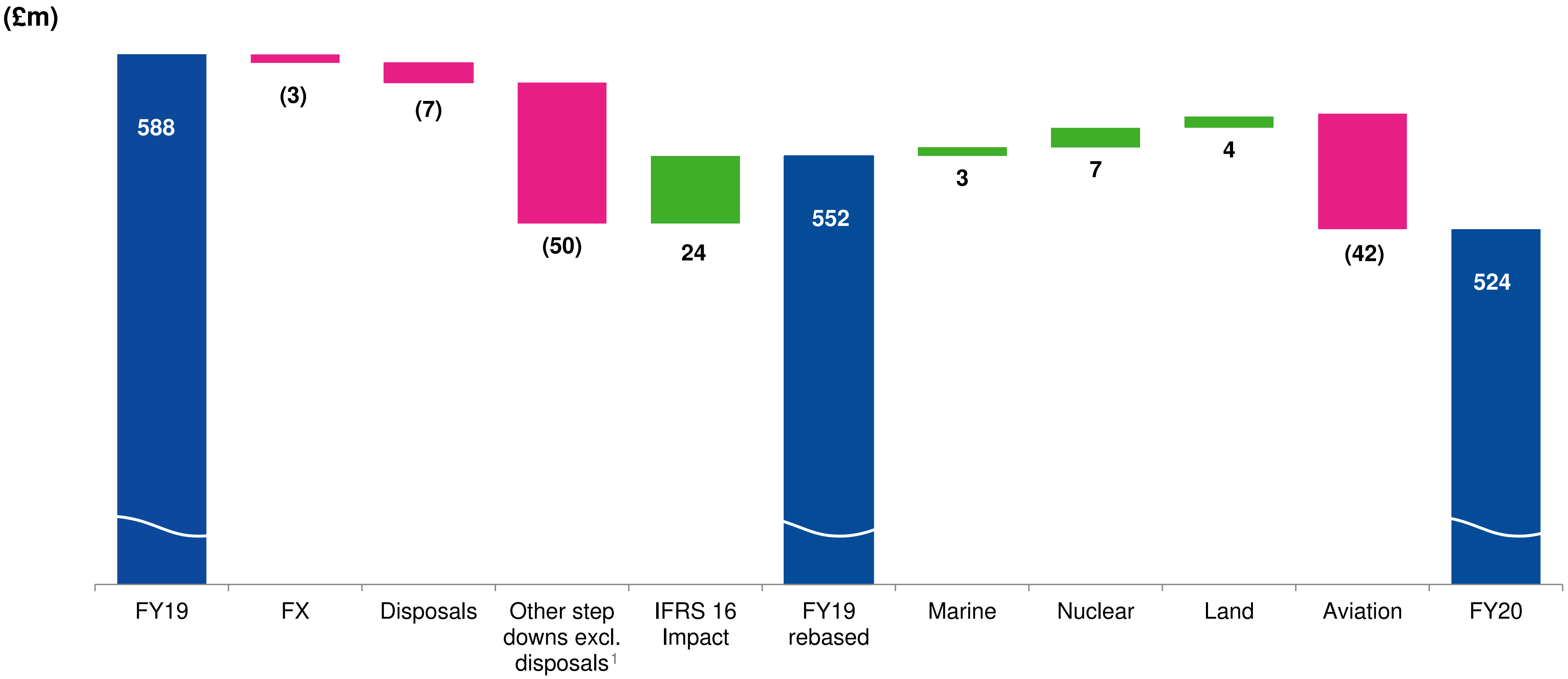
1. Revenue step downs include: foreign exchange movements (£36m), QEC (£50m), Magnox (£271m), other exits (£24m) and disposals (£47m)
   Operating profit step downs include: foreign exchange movements (£3m), QEC (£2m), Magnox (£25m), other exits (£3m), disposals (£7m), Holdfast normalisation (£10m) and Brexit-related Aviation restructure costs (£10m)
   For more detail refer to appendix slide 46

Revenue growth excl. step downs



1. Other revenue step downs include: QEC (£50m), Magnox (£271m) and other exits (£24m). For more detail refer to appendix slide 46

Operating profit reflects step downs and Aviation weakness



1. Other operating profit step downs include: QEC (£2m), Magnox (£25m), other exits (£3m), Holdfast normalisation (£10m) and Brexit-related Aviation restructure costs (£10m). For more detail on step downs refer to appendix slide 46

Exceptionals items in FY20

Aviation goodwill
£395m

- Oil and gas market deterioration
- Revised estimates of future performance of the sector
- No cash impact

Aviation charges
£143m

- Oil and Gas
  - Assets
  - Leases and contracts
  - Exit of Ghana and Congo
- Restructuring
- Anti-trust fine plus costs (£50m)

Other restructuring
£35m net credit

- Nuclear and Rail restructuring
- Exits and disposals
- £75m profit on sale of Context

Total cash outflows from these charges of **£129m**, reduced to **£27m** after Context proceeds

Marine: strong year across the sector

	FY20 (£m) IFRS 16 basis	FY19 (£m) Pre-IFRS 16 basis
Revenue (£m)	**1,207**	1,086
Operating profit (£m)	**144**	141
Operating margin	**11.9%**	13.0%

The adoption of IFRS 16 increased operating profit by £2.2m in the period. The impact of step downs incl. FX[1] in the year was to reduce revenue by £51m and operating profit by £2m.

- Strong revenue growth led by:
  - Increased activity in UK warship support
  - Strong orders across our LGE business and growth across Dreadnought and Columbia programmes
  - Start of LHD work in Australia
  - Design work for Type 31 frigates
- Small growth in operating profit
- Margin lower as expected:
  - Contract outperformances last year
  - Lower profit take in early stages of contracts this year
- **FY21 outlook:**
  - Defence work continues, some impact on short cycle Energy and Marine business
  - Type 31 programme ramps up
  - Sector margin impact from lower demand and productivity levels

1. Marine revenue step downs include: QEC (£50m), other exits (£1m)
Marine operating profit step downs include: QEC (£2m)
For more detail refer to appendix slide 46

Nuclear: good defence performance, challenging civil market

	FY20 (£m) IFRS 16 basis	FY19 (£m) Pre-IFRS 16 basis
Revenue (£m)	**1,111**	1,319
Operating profit (£m)	**126**	144
Operating margin	**11.4%**	10.9%

The adoption of IFRS 16 increased operating profit by £0.8m in the period. The impact of step downs incl. FX[1] in the year was to reduce revenue by £271m and operating profit by £25m.

- Revenue growth of 6% excluding Magnox[1]
- Operating profit growth of 6% excluding Magnox[1] and IFRS 16
- **UK defence:**
  - Higher levels of submarine support
  - Growth in infrastructure projects
- **Civil:**
  - Civil market slowed, lower customer spend
  - Small COVID-19 impact
- Taking action to restructure civil business
- **FY21 outlook:**
  - Defence work continues, outlook for civil tougher
  - Sector margin impact from lower demand and productivity levels

1. Nuclear revenue step downs include: Magnox (£271m)
Nuclear operating profit step downs include: Magnox (£25m)
For more detail refer to appendix slide 46

Land: solid trading over the year

	FY20 (£m) IFRS 16 basis	FY19 (£m) Pre-IFRS 16 basis
Revenue (£m)	**1,554**	1,620
Operating profit (£m)	**134**	146
Operating margin	**8.6%**	9.0%

The adoption of IFRS 16 increased operating profit by £2.6m in the period. The impact of step downs incl. FX[1] in the year was to reduce revenue by £85m and operating profit by £18m.

- Revenue growth of 1.2% excluding step downs[1]:
  - Higher defence procurement revenues
  - Stronger trading in South Africa
- Operating profit ahead of expectations:
  - Holdfast (RSME) performance
  - ALC performance
  - South Africa performance
- Small COVID-19 impact
- **FY21 outlook:**
  - Defence, emergency services and South Africa energy work continues
  - Greater impact in adjacent markets
  - Only two months of Holdfast contribution
  - Sector margin impact from lower demand and productivity levels

1. Land revenue step downs include: foreign exchange movements (£24m), disposals (£38m), other exits (£23m)
   Land operating profit step downs include: foreign exchange movements (£1m), disposals (£4m), other exits (£3m), Holdfast normalisation (£10m)
   For more detail refer to appendix slide 46

Aviation: tough market conditions, action being taken

	FY20 (£m) IFRS 16 basis	FY19 (£m) Pre-IFRS 16 basis
Revenue (£m)	**1,000**	1,136
Operating profit (£m)	**121**	161
Operating margin	**12.1%**	14.1%

The adoption of IFRS 16 increased operating profit by £17.9m in the year. The impact of step downs incl. FX[1] in the year was to reduce revenue by £21m and operating profit by £15m.

- Revenue broadly flat excl. Fomedec and Helidax[1]
  - New operations in Norway and Canada
  - Lower oil and gas revenue
- Operating profit down:
  - Pressures in Oil and Gas business
  - Contract delays in emergency services, price and cost pressures
  - Contract outperformances flagged last year
- COVID-19 impact in final two months of the year
- Actions taken to stabilise the business
- **FY21 outlook:**
  - Defence work continues, lower flying activity in emergency services and Oil and Gas
  - Sector margin impact from lower demand and productivity levels

1. Aviation revenue step downs include: foreign exchange movements (£12m), disposals (£9m).
   Aviation operating profit step downs include: foreign exchange movements (£2m), disposals (£3m), Brexit-related Aviation restructure (£10m)
   For more detail refer to appendix slide 46

Cash performance on track before COVID-19

Working capital

- Good performance overall
- Outflow as guided despite COVID-19 impact
- COVID-19 impact on customer receipts and invoicing in final month prevented outperformance
- VAT receipts delay in Europe

Capital expenditure

- Net capex 1.5 times depreciation
- Higher than the guided c. 1.0 times depreciation
- COVID-19 stopped some asset sales completing in March

Cash flow reduction driven by working capital swing

	FY20 (£m)		FY19 (£m)	
Underlying operating profit excluding JVs[1]		**417**		452
Amortisation and depreciation		**96**		109
Depreciation of right of use assets		**130**		-
Other non-cash items		**5**		(1)
Working capital (excl. provisions)		**(27)**		87
Provisions		**(19)**		(29)
Operating cash flow		**602**		618
Gross capital expenditure	**(175)**		(227)	
Disposals within capital expenditure[2]	**27**		78	
Net capex pre-IFRS 16	**(148)**		(149)	
IFRS 16 additions less exceptional payments[3]	**(110)**		-	
Net capital spend		**(258)**		(149)
Operating cash flow after capex		**344**		469
Cash conversion		***83%***		*104%*
Net capex/depreciation (pre-IFRS 16)		***1.5x***		*1.4x*

- PPE depreciation excludes £10 million related to finance leases now included in the depreciation of right of use assets
- **Working capital** outflow as expected:
  - Fomedec working capital inflow in FY19
  - COVID-19 impact affected final quarter performance
- **Cash conversion** of 83%, below target of 90% due to COVID-19 impact

IFRS 16 increased operating cash flow after capex by £33 million

1. Group underlying operating profit excluding JV contribution of £106m
2. Disposals relate to converting owned assets to operating leases
3. Excludes onerous leases of £18m

Free cash flow impacted by COVID-19

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	FY20 (£m)	FY19 (£m)
Operating cash flow after capex	**344**	469
Net interest paid	**(47)**	(47)
Interest paid – IFRS 16	**(24)**	-
Taxation	**(63)**	(87)
Dividends from JVs	**52**	45
Pensions contributions in excess of income statement	**(70)**	(56)
Free cash flow	**192**	324

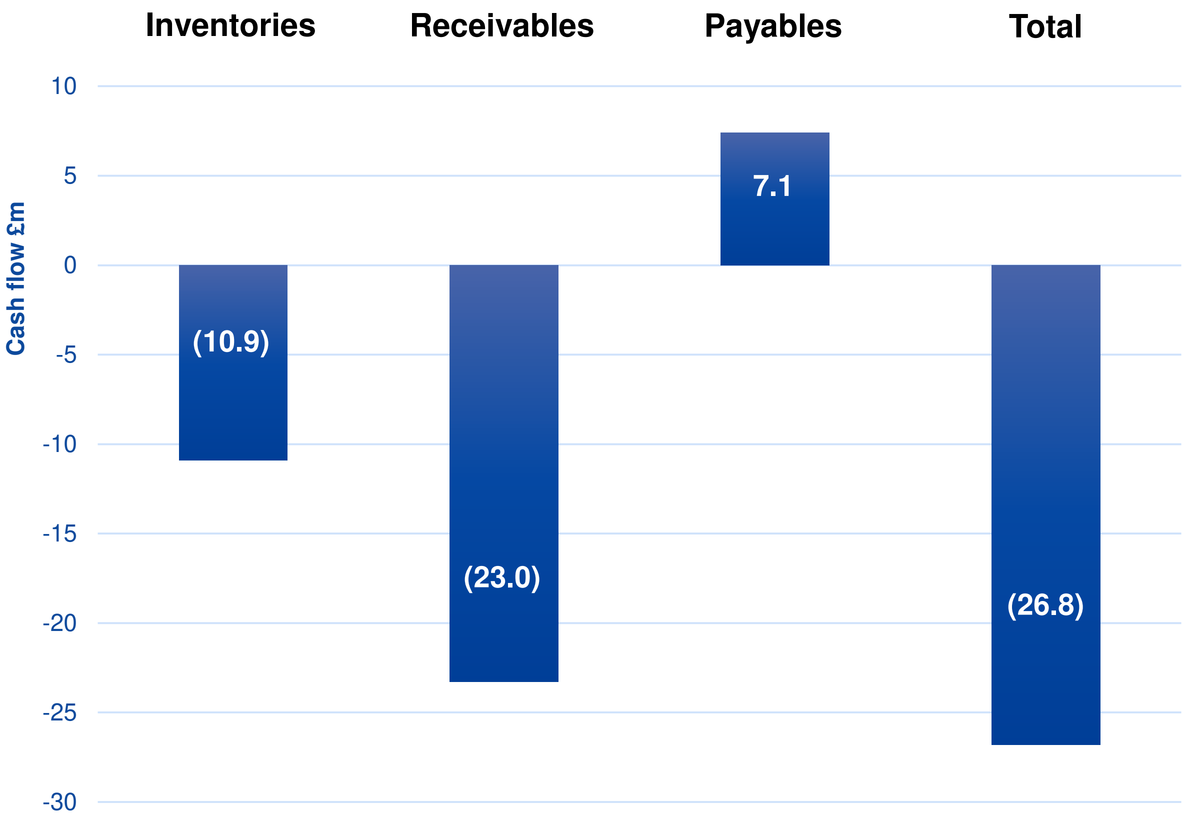
- COVID-19 impact on working capital and net capex resulted in free cash flow below expectations
- Lower cash tax mainly due to lower profits
- JV dividends higher year on year due to Magnox exit
- Pension contributions higher as expected

IFRS 16 increased free cash flow after capex by £8 million

Factors impacting our free cash flow conversion

1. Working capital
2. Capital expenditure
3. Joint ventures
4. Pension contributions

Working capital: small outflow in the year as guided



Receivables

- Increased capitalised contract costs in Norway, Canada, Type 31
- Progress on AMROC – lower YoY but reduction less than expected
- Some delays to customer invoicing and receipts due to COVID-19
- VAT timing differences
- Balance sheet movement incorporates FX
- Receivables factoring c.£100m at 31 March 2020, consistent with last year

Payables

- Contract cost accruals increase due to Type 31
- Increase in LGE advance customer payments
- Partly offset by some lower activity on payables

Inventories

- Increased stock in South Africa and start ups reflecting expected activity levels

Capital expenditure: net capex flat year-on-year

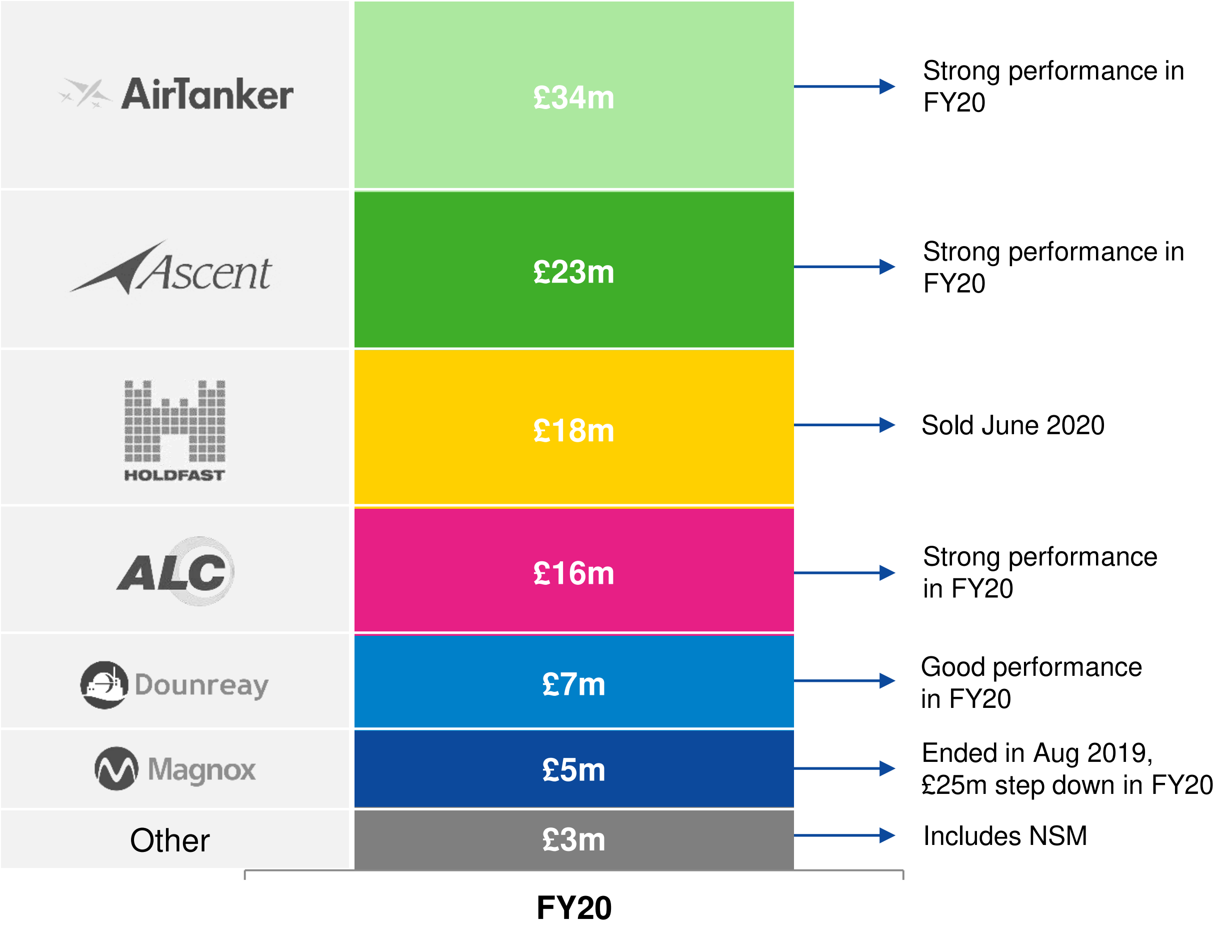
(£m)	FY20	FY19
Purchases of PPE	146	194
Purchases of intangible assets	29	33
Gross capex (pre-IFRS 16)	**175**	**227**
Proceeds on disposals of PPE	(27)	(78)
Net capex (pre-IFRS 16)	**148**	**149**

Net capex/depreciation (pre-IFRS 16)	**1.5x**	**1.4x**

- Net capex (pre-IFRS 16) remained at a similar level to FY19
- This is greater than expected due to lower level of disposals as COVID-19 led to customer and financing delays in the final months of the year

Joint ventures

£106m operating profit in FY20:



Dividends:

- £52m received in FY20
- Our share of distributable reserves is c.£150m

JV net debt:

- All JV debt is non-recourse to the Group
- Babcock proportion of net debt at 31 March 2020 was £260m (March 19: £311m)
- c.85% of JV net debt is AirTanker – guaranteed minimum payments cover financing

Cash vs profits:

- Small cash gap (£15m) in FY20, all Magnox dividends received
- Small cash gap going forward due to JVs paying down debt (asset JVs)

Outlook:

- Only two months of Holdfast contributions in FY21
- Expect dividends of around £30m in FY21

See appendix for further details

Pensions

IAS 19 position

(£m)	FY20	FY19
Assets	**4,411**	4,582
Obligations	**(4,266)**	(4,610)
Net surplus / (deficit)	**145**	(28)

Key assumptions	FY20	FY19
Discount rate	**2.4%**	2.4%
Inflation (RPI)	**2.6%**	3.2%

Movement in IAS 19 net position due to:

- Fall in inflation assumptions
- Discount rate unchanged

Technical provisions position

March 2020:	**c.£500m deficit**
March 2019:	c.£400m deficit

Why different to IAS 19 position:

- Credit spread over gilts has increased, maintaining IAS 19 discount rate

Why the actuarial deficit has increased in FY20:

- Gilt yield rates have fallen
- Hedging has limited the deterioration in assets

Cash payments:

- Pension contributions in excess of income statement: **£70m** in FY20, around **£75m** in FY21
- Normal additional payments included in underlying free cash flow
- Rosyth agreement: **c.£90m** over two years, treated as exceptional cash flows

Net debt: our definition

Two measures:

	Net debt:		Gearing:			
1	£0.92bn	Group net debt	1.7x	"Covenant basis": Group EBITDA (excl. IFRS 16 EBITDA impact) + JV dividends	1.5x pro forma	Including Holdfast sale
2	£1.59bn	Group net debt + lease obligations	2.3x	Group EBITDA (incl. IFRS 16 EBITDA impact) + JV dividends		

Group net debt excludes	Value	Rationale for excluding
Pension actuarial deficit	**c.£500m**	Included in FCF (Rosyth top up payments treated as exceptional)
JV net debt	**£260m**	Non-recourse to Group, asset-backed, mainly AirTanker

Guidance for the year ahead

Uncertainty

COVID-19 creates too much uncertainty to be able to give financial guidance for the year ending 31 March 2021

Impacts

Short cycle work (c.20% of revenue) most impacted. Long term critical, non-discretionary contract work (c.80%) continues. Sector margins will be impacted by lower demand and productivity levels

Next update at August trading statement

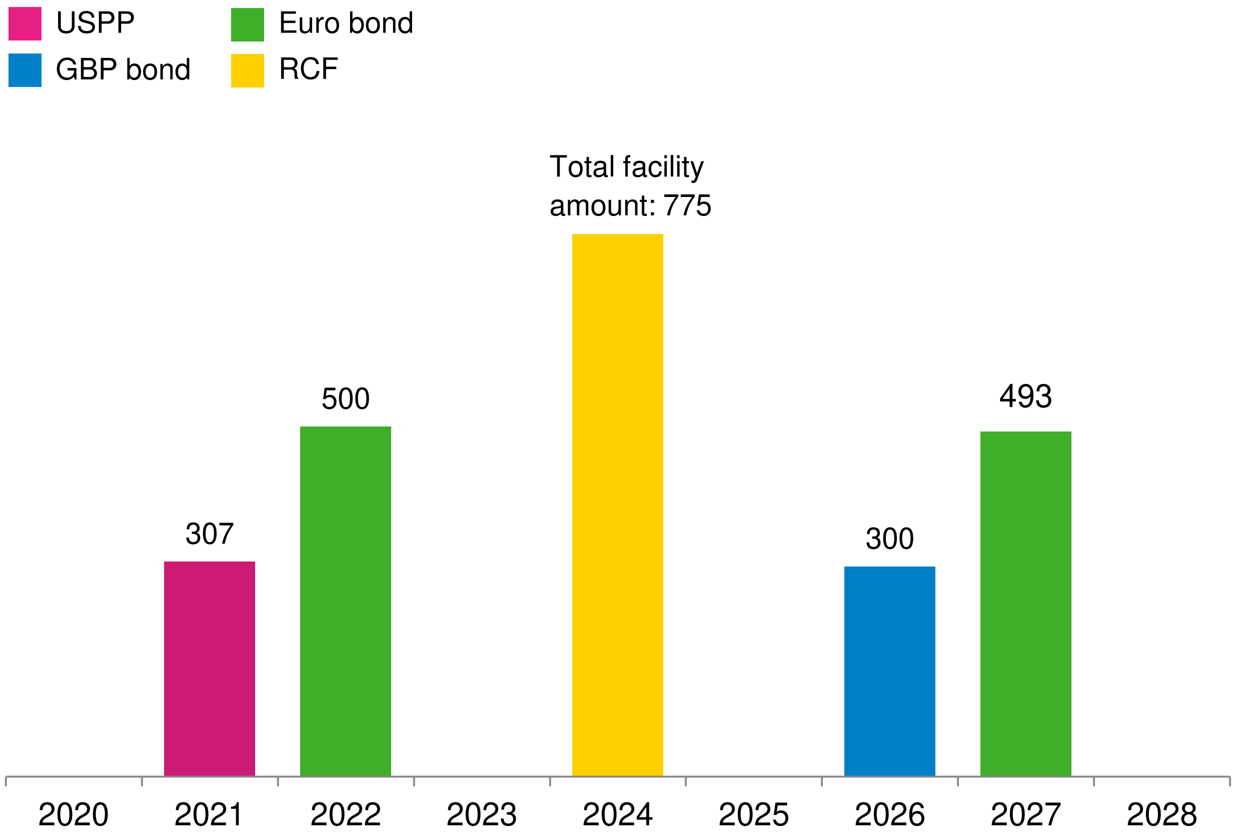
We will provide an update on the impact of COVID-19 at our trading statement in August 2020

Considering the impact of COVID-19 by sector

	Marine	Nuclear	Land	Aviation
Areas impacted	• Majority of defence work continues • Some impact in Energy and Marine business	• Defence work continues • Lower level of civil nuclear project work	• Defence work continues • Significant reductions in adjacent market businesses, incl. civil training, airports, rail, power volumes and SA equipment	• Defence work continues • Lower flying hours in emergency services but impact less severe than initially • Lower flying hours in Oil and Gas
Mitigating actions	• Govt. customers supporting costs (not margin) in areas most impacted • Increased cost control	• Govt. customers supporting costs (not margin) in areas most impacted • Furloughed staff in some civil nuclear businesses • Increased cost control	• Govt. customers supporting costs (not margin) in areas most impacted • Furloughed staff in civil training and airports • Increased cost control	• Emergency Services and Oil and gas contracts include a fixed charge element • Increased cost control
Splits	Defence c.75% Adjacent c.25%	Defence c.75% Civil c.25%	Defence c.40% ES c.5% Adjacent c.55%	Defence c.25% ES c.60% Adjacent c.15%

Significant liquidity available to the Group

Debt maturity profile[1] (£m)



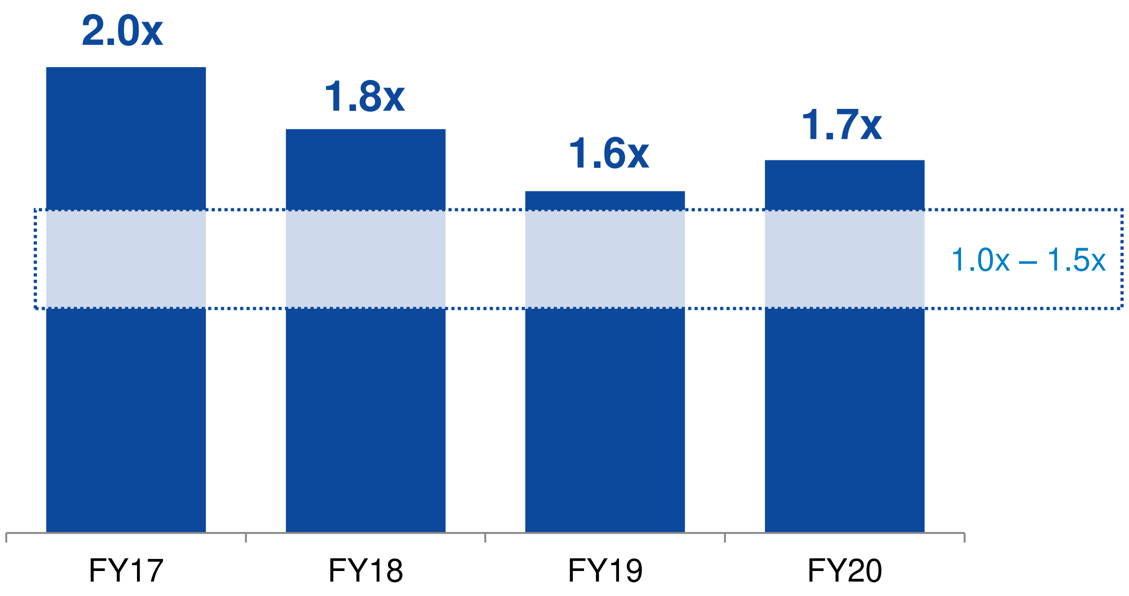
- Access to sufficient liquidity via a £775m Revolving Credit Facility maturing in August 2024
- New 8-year Euro bond 2027
- £100m term loan and £40m loan note repaid during FY20
- £307m USPP repayable March 2021
- Gross cash balance high until March 2021
- Bonds have no financial covenants

Covenants	At Mar 20
Net debt/EBITDA: <3.5x	**1.7x**
Interest cover: >4x	**11.3x**

1. Chart shows hedged GBP value of the debt

Our approach to capital allocation

Net debt / EBITDA[1]



Our capital allocation priorities:

Organically invest in the business

↓

Ensure group liquidity

Given the current challenging environment from the impact of COVID-19, our immediate focus is ensuring the group has sufficient capital and liquidity to cope with COVID-19 and other risks. If these are met then the capital allocation policy we set out in November 2019 still applies.

If the above are satisfied, then…

Fund pension schemes / safeguard credit rating

↓

Sustainable ordinary dividend to shareholders

↓

Highly selective bolt on acquisitive growth

Bolt on M&A considered against hurdle rates and current group valuation

Capital return to shareholders

Share buyback / special dividend

1. Group net debt (excluding lease obligations) / Underlying group EBITDA (pre-IFRS 16) + JV dividends received

Summary

Archie Bethel

Chief Executive

Resilient business model ready for the year ahead

Strong performance across defence businesses	**Significant order book and pipeline**	**Most of our work is critical and non-discretionary**	**Comfortable liquidity position**

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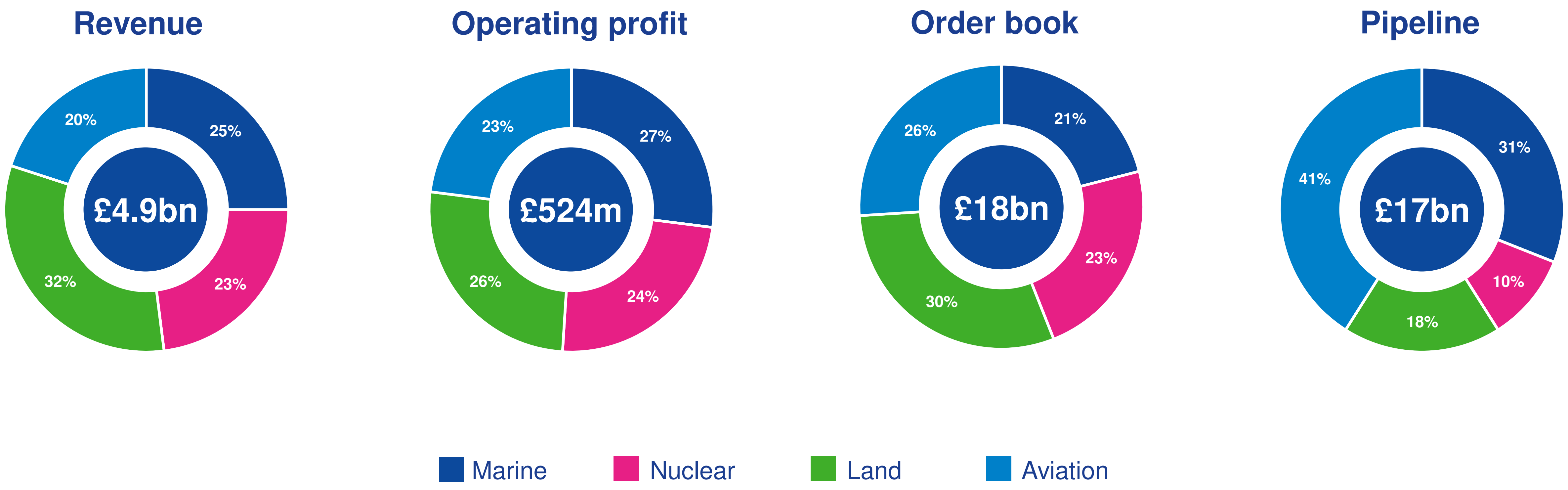
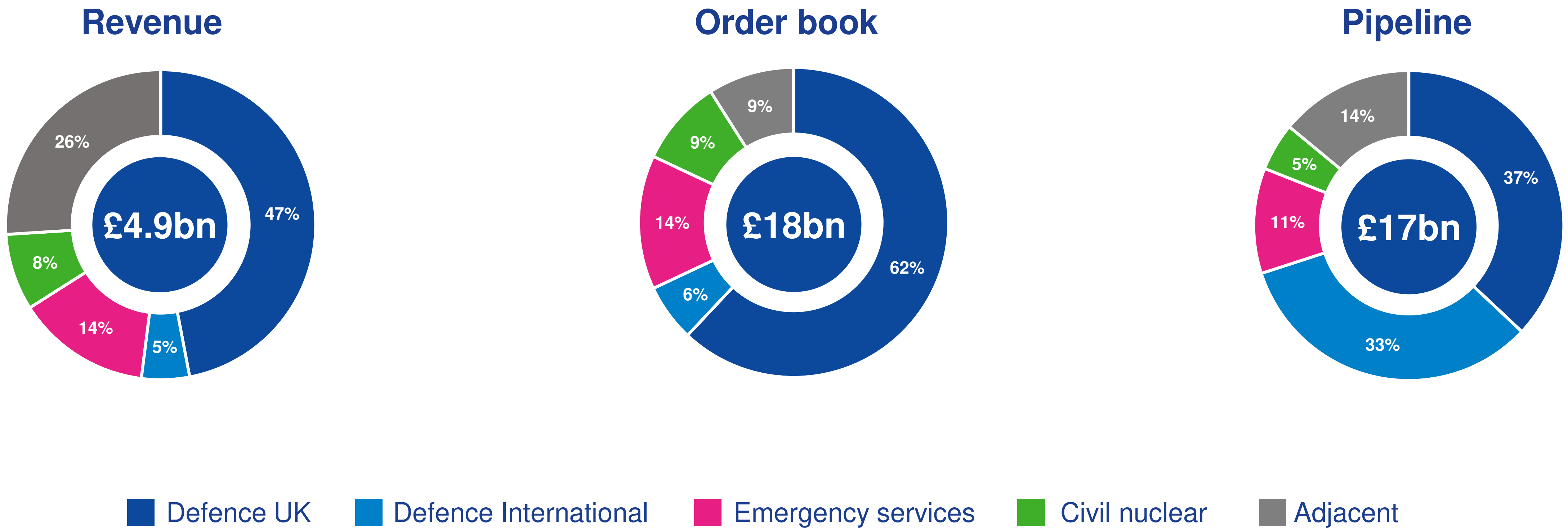
Appendix

FY20: sector splits

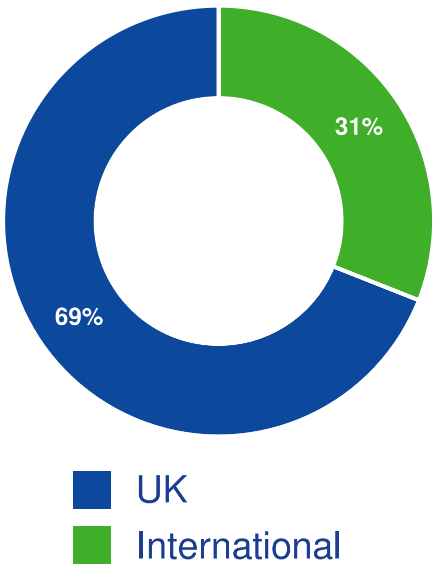


FY20: market splits

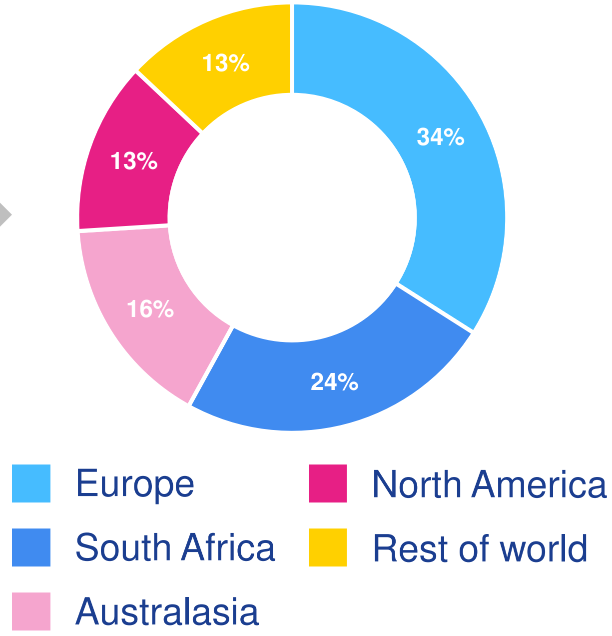


FY20: international splits

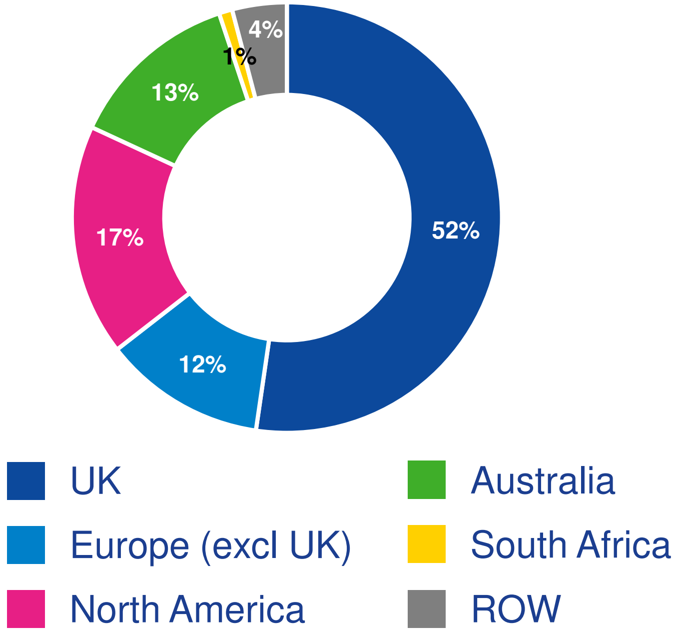
UK vs international revenue



International revenue



International pipeline



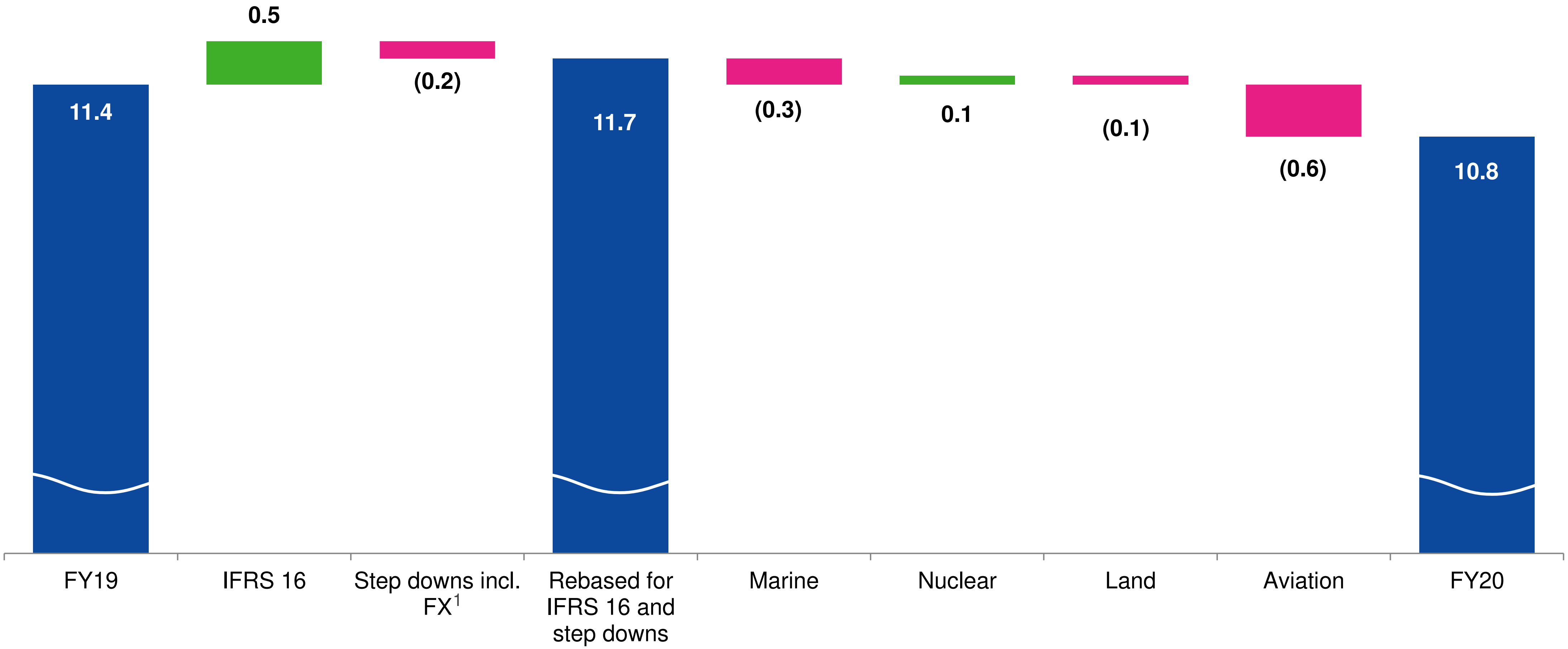
FY20 step downs

	Revenue (£m)	Operating profit (£m)	Margin
FY19	**5,161**	**588**	**11.4%**
Step downs:			
End of QEC contract	(50)	(2)	
End of Magnox contract	(271)	(25)	
Impact of exits and disposals	(71)	(10)	
Normalisation of Holdfast profit contribution		(10)	
Brexit-related Aviation restructuring		(10)	
FY19 rebased for step downs	**4,769**	**531**	**11.1%**
FX	(36)	(3)	
FY19 rebased for step downs incl. FX	**4,733**	**528**	**11.2%**

Note: associated FY21 revenue step downs of £120m for Magnox and £30m for QEC with minimal profit impact

FY20 underlying margin bridge

(%)



1. Foreign exchange movements, exits, disposals, QEC and Magnox step downs. For more detail refer to appendix slide 46

Exceptional items: detailed split

	FY20 charge / (credit) (£m)
Aviation	
Goodwill impairment	395.0
Asset impairment (Oil and Gas)	22.2
Right of use asset impairment and onerous customer contracts (Oil and Gas)	31.2
Exit of Ghana and Congo (Oil and Gas)	7.1
Aviation restructuring	26.5
Aviation other	55.8
Total Aviation	**537.8**
Capacity restructuring (Nuclear and Rail)	24.3
Exits and disposals	(59.2)
Total	**502.9**
Tax	(26.1)
Net	**476.8**

Exceptional items: expected cash costs

	FY20 (£m)	Expected FY21E (£m)	FY22E (£m)	FY23E (£m)	Total
FY19 exceptional items	(38)	c.(4)	-	-	c.(42)
FY20 exceptional items	61	c.(95)	c.12	c.(2)	c.(27)
Sale of Holdfast	-	85	-	-	85
Rosyth additional payments	-	c.(45)	c.(45)	-	c.(90)
Total	**23**	**c.(59)**	**c.(33)**	**c.(2)**	**c.(74)**

IFRS 16: impact of adoption

P&L	FY20 pre-IFRS 16	IFRS 16 adjustment	FY20 post-IFRS 16
Underlying operating profit (£m)	500.6	23.6	**524.2**
Net interest (£m)	(71.1)	(24.7)	**(95.8)**
Underlying profit before tax (£m)	429.5	(1.1)	**428.4**
Tax (£m)	(77.3)	0.2	**(77.1)**
Underlying profit after tax (£m)	352.2	(0.9)	**351.3**
EPS	69.3p	(0.2)p	**69.1p**

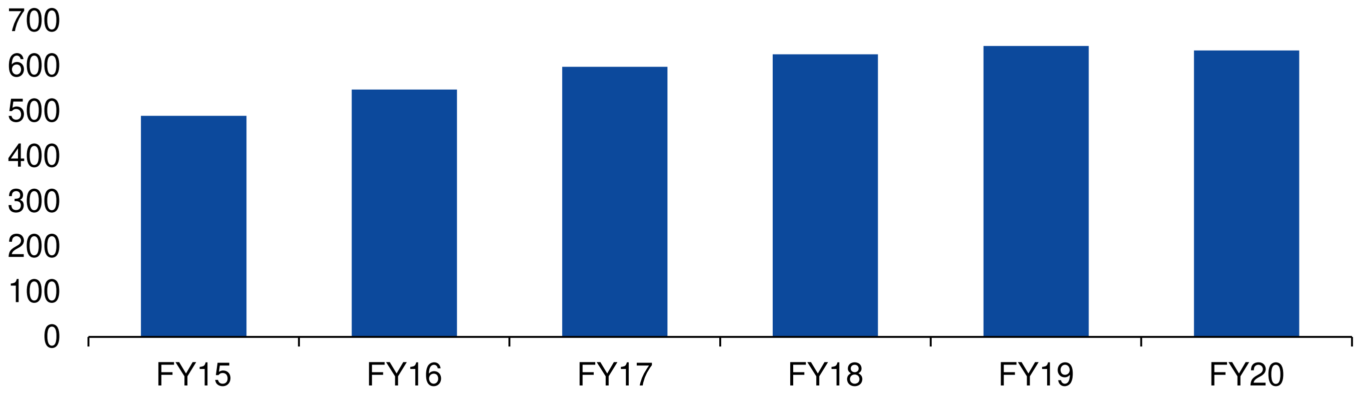
Balance Sheet	1 April 2019	31 March 2020
Right of use assets[1] (£m)	592.7	**638.8**
Lease liabilities[1] (£m)	(640.8)	**(672.8)**

- IFRS 16 P&L impact in line with expectations:
  - Operating profit increase of £23.6m
  - Immaterial impact on PBT and small negative impact on EPS
- Increase in lease liabilities due to FX and now includes finance lease obligations
- IFRS 16 impacts various cash flows:
  - Additional £23.6m of operating profit
  - £129.4m depreciation of the ROU assets
  - £109.8m IFRS 16 additions less exceptional payments[2]
  - £24.7m interest on lease liabilities
  - PPE depreciation charge excludes £10.3m related to finance leases - now included in the depreciation of ROU assets
  - Net impact of these was to increase free cash flow by £8.2 million

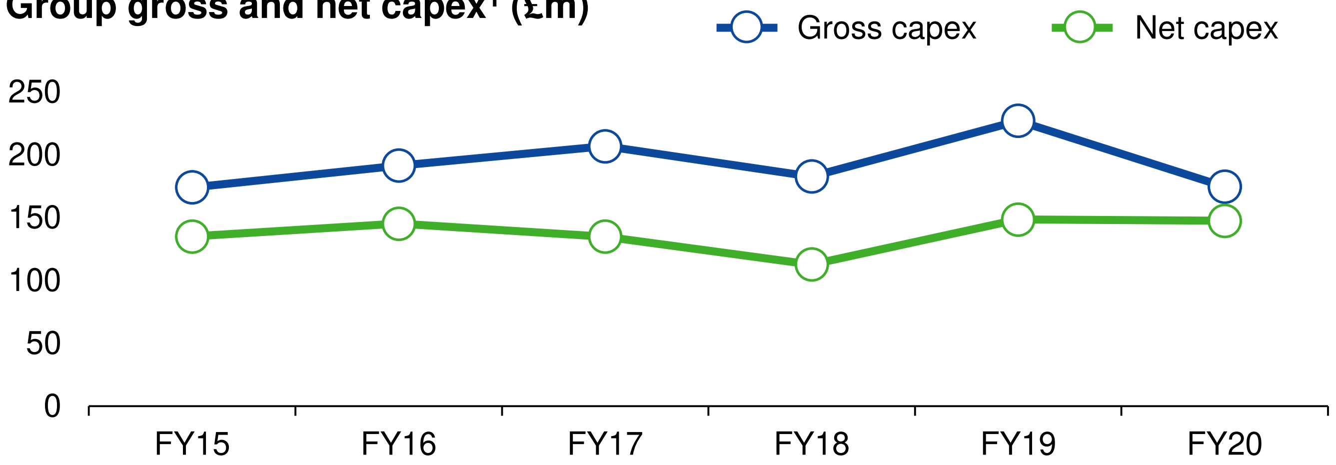
1. For March 2020, includes leases which were previously treated as finance leases
2. Additional leases entered into during the year less exceptional payments which we include in underlying cash flow for the purposes of explaining net debt movement

Capital expenditure: our aircraft fleet financing approach

Gross book value of aircraft within PPE (£m)



Group gross and net capex[1] (£m)



Aims:

- New assets to be leased where appropriate
- Optimise lease pricing

Approach:

- Buy aircraft/slot deposits for a percentage of possible new requirement (wins/rebids)
- Once contract won, sale and leaseback where market efficient
- Retain asset where market inefficient (e.g. more bespoke assets)
- Lease directly for gap in requirement

Outcome:

- Owned assets increasing
- Lease pricing efficient

Conclusion:

- Owned and leased fleet growing
- Potential to reset owned/leased mix
- Fleet rationalisation may provide opportunity

1. Total capex including aircraft on a pre-IFRS 16 basis

Underlying EPS reconciliation

	FY20 (p)	FY19 (p)	Movement
Statutory EPS	**(38.6)**	39.5	(78.1)
Acquired intangibles amortisation[1]	**13.6**	15.7	(2.1)
Exceptional items[1]	**94.3**	28.5	65.8
Impact of change in statutory tax rates	**(0.2)**	0.3	(0.5)
Underlying EPS	**69.1**	84.0	(14.9)

Acquired intangibles amortisation:

- Non-cash item

JV treatment:

- No effect at EPS level
- Impacts operating profit, net finance charges and tax

1. Net of tax

Statutory to underlying reconciliation

	All values in £m	Statutory	Joint Ventures and Associates			IFRIC 12 income	Amortisation of acquired intangibles	Exceptional items	Change in tax rate	Underlying
			Revenue and operating profit	Finance costs	Tax					
31 March 2020	Revenue	4,449.5	422.2							4,871.7
31 March 2020	Operating profit	(164.9)	79.8			27.0	81.5	500.8		524.2
31 March 2020	Share of profit from JV	58.6	(79.8)	22.8	16.4	(25.9)	5.8	2.1		–
31 March 2020	Investment income	1.1				(1.1)				–
31 March 2020	Net finance costs	(73.0)		(22.8)						(95.8)
31 March 2020	Profit before tax	(178.2)	–	–	16.4	–	87.3	502.9	–	428.4
31 March 2020	Tax	(15.0)			(16.4)		(18.4)	(26.1)	(1.2)	(77.1)
31 March 2020	Profit after tax	(193.2)	–	–	–	–	68.9	476.8	(1.2)	351.3
31 March 2020	**Return on revenue**	(3.7)%								10.8%
31 March 2019	Revenue	4,474.8	685.8							**5,160.6**
31 March 2019	Operating profit	196.5	106.8			29.1	95.2	160.8		**588.4**
31 March 2019	Share of profit from JV	83.8	(106.8)	24.1	20.9	(27.8)	5.8			**-**
31 March 2019	Investment income	1.3				(1.3)				**-**
31 March 2019	Net finance costs	(46.4)		(24.1)						**(70.5)**
31 March 2019	Profit before tax	235.2	-	-	20.9	-	101.0	160.8		**517.9**
31 March 2019	Tax	(35.4)			(20.9)		(21.5)	(16.7)	1.3	**(93.2)**
31 March 2019	Profit after tax	199.8	-	-	-	-	79.5	144.1	1.3	**424.7**
31 March 2019	**Return on revenue**	**4.4%**								**11.4%**

Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2019	**1,086.0**	**1,318.9**	**1,620.2**	**1,135.5**	**–**	**5,160.6**
Exchange adjustment	(0.1)	–	(24.0)	(12.3)	–	(36.4)
Disposals	–	–	(37.9)	(8.7)	–	(46.6)
Step downs excl. disposals	(51.4)	(270.8)	(23.2)	–	–	(345.4)
Organic growth excl. step downs	172.4	62.8	18.5	(114.2)	–	139.5
31 March 2020	**1,206.9**	**1,110.9**	**1,553.6**	**1,000.3**	**–**	**4,871.7**
Underlying revenue growth	11.1 %	– 15.8 %	– 4.1 %	– 11.9 %	–	– 5.6 %
Organic growth at constant exchange rates	11.1 %	– 15.8 %	– 0.3 %	– 10.1 %	–	– 4.0 %
Organic growth excl. step downs at constant exchange rates	15.9 %	4.8 %	1.1 %	– 10.1 %	–	2.7 %

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying operating profit						
31 March 2019	**141.2**	**143.5**	**146.0**	**160.5**	**(2.8)**	**588.4**
IFRS 16 impact	2.2	0.8	2.6	17.9	0.1	23.6
Exchange adjustment	(0.1)	–	(1.6)	(1.5)	–	(3.2)
Disposals	–	–	(4.3)	(3.0)	–	(7.3)
Step downs excl. disposals	(2.0)	(25.0)	(12.5)	(10.0)	–	(49.5)
Organic growth excl. step downs	2.7	7.0	3.7	(42.9)	1.7	(27.8)
31 March 2020	**144.0**	**126.3**	**133.9**	**121.0**	**(1.0)**	**524.2**
Underlying operating profit growth (pre-IFRS 16)	0.4 %	– 12.5 %	– 10.1 %	– 35.8 %	– 60.7 %	– 14.9 %
Organic growth at constant exchange rates (pre-IFRS 16)	0.5 %	– 12.5 %	– 6.0 %	– 33.0 %		– 13.1 %
Organic growth excl. step downs at constant exchange rates (pre-IFRS 16)	1.9 %	4.9 %	2.5 %	– 26.7 %		– 4.7 %

Underlying segmental analysis

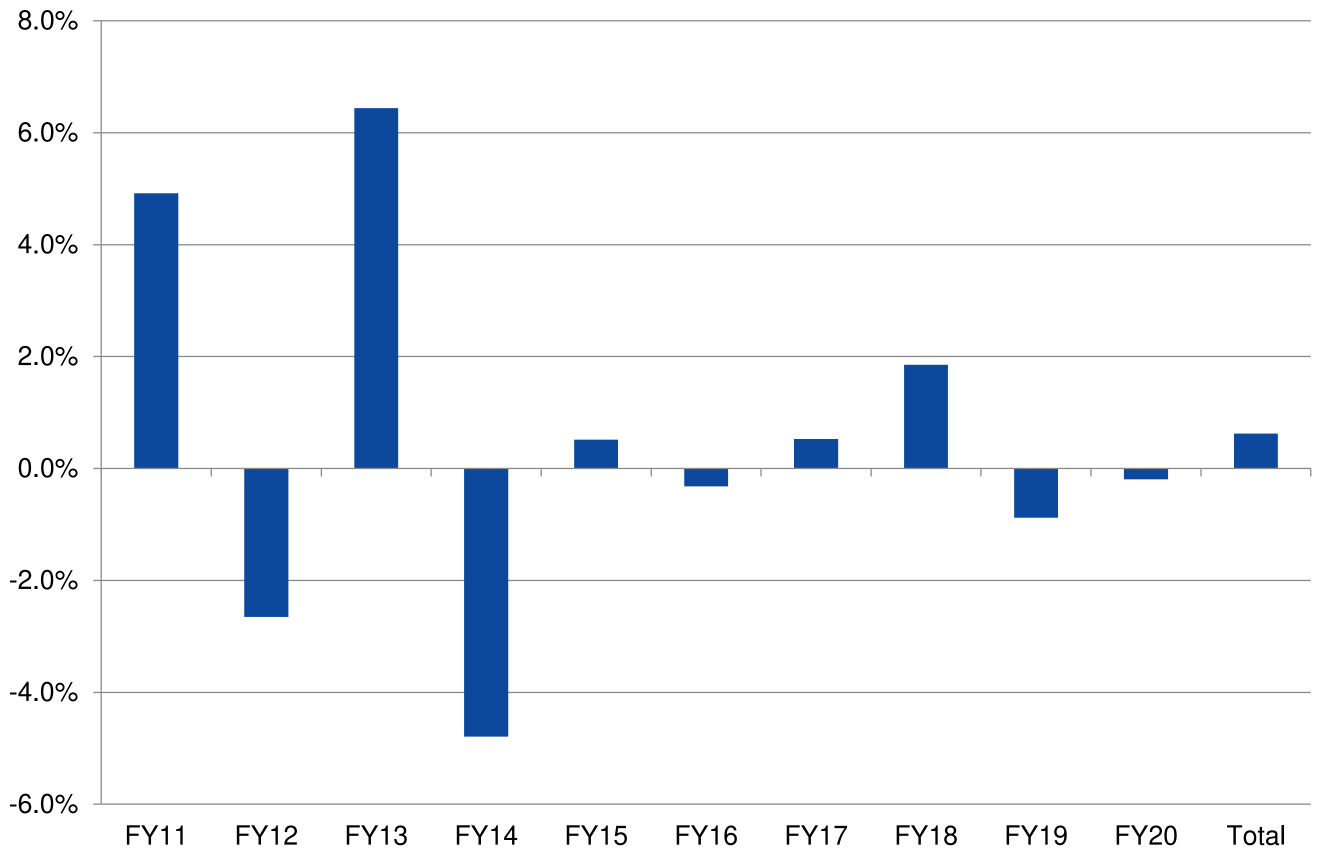
		Revenue (£m)		Operating profit (£m)		Operating margin	
		FY20	FY19	FY20	FY19 (pre-IFRS 16)	FY20	FY19 (pre-IFRS 16)
Marine	Group	£1,163.8m	£1,065.7m	£140.7m	£137.9m	12.1%	12.9%
	JV	43.1m	£20.3m	£3.3m	£3.3m	7.7%	16.3%
	Total	**£1,206.9m**	**£1,086.0m**	**£144.0m**	**£141.2m**	**11.9%**	**13.0%**
Nuclear	Group	£898.4m	£853.2m	£114.1m	£106.5m	12.7%	12.5%
	JV	£212.5m	£465.7m	£12.2m	£37.0m	5.7%	7.9%
	Total	**£1,110.9m**	**£1,318.9m**	**£126.3m**	**£143.5m**	**11.4%**	**10.9%**
Land	Group	£1,534.7m	£1,560.0m	£100.5m	£105.1m	6.5%	6.7%
	JV	£18.9m	£60.2m	£33.4m	£40.9m	176.7%	67.9%
	Total	**£1,553.6m**	**£1,620.2m**	**£133.9m**	**£146.0m**	**8.6%**	**9.0%**
Aviation	Group	£852.6m	£995.9m	£64.2m	£107.1m	7.5%	10.8%
	JV	£147.7m	£139.6m	£56.8m	£53.4m	38.5%	38.3%
	Total	**£1,000.3m**	**£1,135.5m**	**£121.0m**	**£160.5m**	**12.1%**	**14.1%**
Total	Unallocated	-	-	£(1.0)m	£(2.8)m	-	-
	Group	£4,449.5m	£4,474.8m	£418.5m	£453.8m	9.4%	10.1%
	JV	£422.2m	£685.8m	£105.7m	£134.6m	25.0%	19.6%
	Total	**£4,871.7m**	**£5,160.6m**	**£524.2m**	**£588.4m**	**10.8%**	**11.4%**

Exchange rate movements

	Impact of FX movement on revenue (£m)			Impact of FX movement on underlying operating profit (£m)			Impact of FX movement on profit before tax (£m)		
	1%	5%	10%	1%	5%	10%	1%	5%	10%
EUR	3.9	19.7	39.4	0.3	1.6	3.1	0.0	0.0	0.0
ZAR	3.3	16.4	32.8	0.4	1.8	3.5	0.3	1.7	3.4
CAD	1.5	7.7	15.4	0.2	0.8	1.5	0.1	0.7	1.5
SEK	0.7	3.5	6.9	0.0	0.1	0.1	0.0	(0.1)	(0.1)
AUD	1.9	9.5	18.9	0.1	0.3	0.6	0.0	0.0	0.0

Provisions

Charge/(release) as % of underlying profit[1]

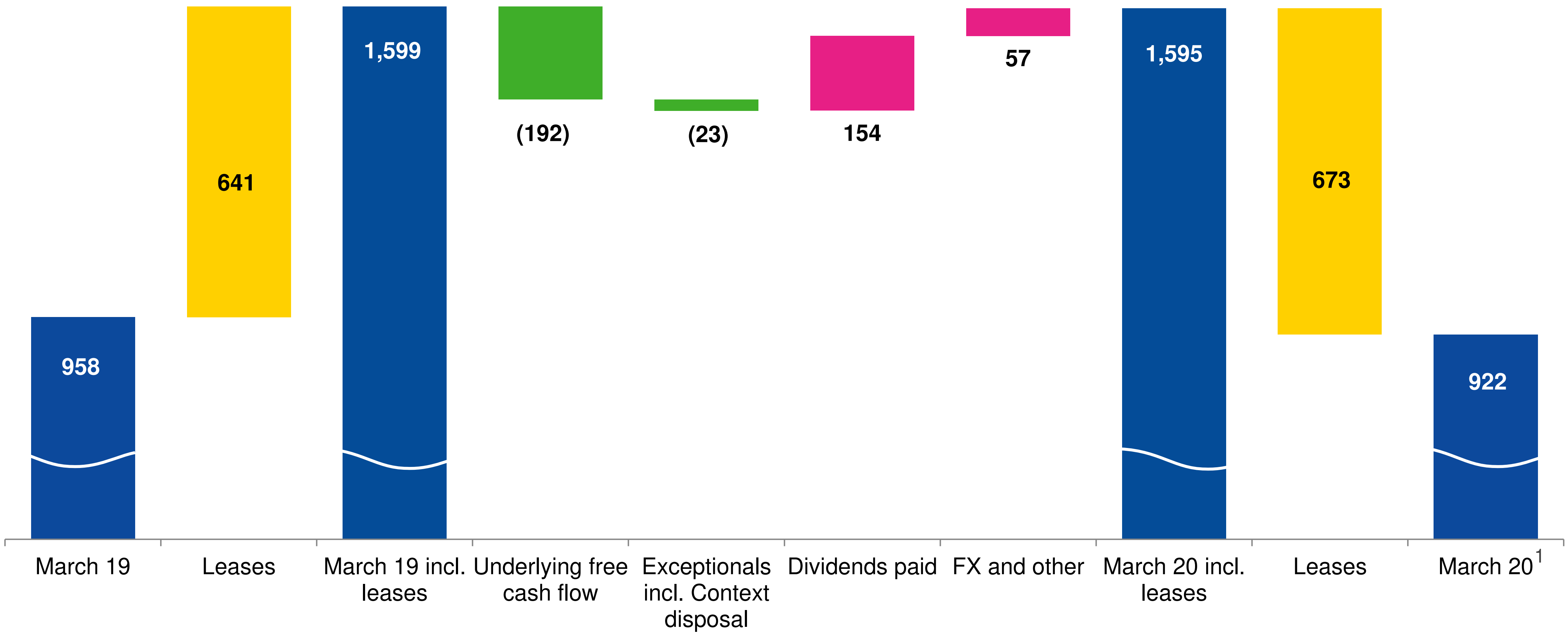


- **FY20 net credit[2] £1m**
- **Average of last ten years:**
  - 0.6% cumulative net charge[2] as a % of underlying profit[1]
  - 5.5% cash utilisation of underlying operating profit[1]
- **FY20: £19m cash outflow[2]**
  - Utilised: contracts (gain share and warranty), personnel (taxation and reorganisation), property and assets
- **Provisions made as required by accounting standards**
  - Contract costs, property, personnel, warranty, acquisitions and disposals
  - Under IFRS 16, onerous lease provisions now recognised as impairments to right of use assets

1. Excluding JVs
2. Excluding provisions in relation to exceptional items

Net debt bridge

(£m)



1. This measure now excludes £40 million of lease obligations which were previously treated as finance leases

Joint Ventures: summary

	Babcock underlying JVs	Share	Country	Sector	Start	End
Asset JVs	Holdfast (RSME)	74%	UK	Land	2008	2038
	ALC	50%	UK	Land	2005	2021
	Ascent	50%	UK	Aviation	2016	2033
	AirTanker	13%	UK	Aviation	2008	2035
	Bernhard Schulte	50%	Germany	Marine	2017	2027
Operational JVs	Cavendish Dounreay Partnership	50%	UK	Nuclear	2012	2030s
	Naval Ship Management Australia	50%	Aus	Marine	2018	2024
	AirTanker Services	22%	UK	Aviation	2008	2035

Asset JVs

- Typically assets and debt
- Dividends follow after paying down JV debt
- Typically long term

Operational JVs

- Capability partnerships
- No debt
- Dividends follow profits, subject to short-term phasing

Joint ventures: detailed financials

babcock

	FY20 (£m)			FY19 (£m)		
	Total	Assets	Operational	Total	Assets	Operational
Operating Profit	**80**	61	19	**107**	61	46
IFRIC 12	**26**	26	-	**28**	28	-
Total underlying profit	**106**	87	19	**135**	89	46
Finance costs	**(23)**	(23)	-	**(24)**	(24)	-
Profit before tax	**83**	64	19	**111**	65	46
Tax	**(16)**	(12)	(4)	**(21)**	(12)	(9)
Profit after tax	**67**	52	15	**90**	53	37
Dividends	**(52)**	(22)	(30)	**(45)**	(19)	(26)
Cash gap	**15**	30	(15)	**45**	34	11

Joint ventures: AirTanker

Our holding: 13.3%

Our JV partners: Airbus, Rolls-Royce, Thales, Cobham

Our share of JV net debt (non-recourse): £218m (March 19: £248m)

- Owns 14 aircraft
- **PFI structure:** guaranteed minimum payments cover financing (assumption: only 9/14 aircraft flying)
- JV holds significant cash balance of £529m as ahead of performance expectations
- Contract runs to 2035
- Not included in JV partners' net debt

Key contracts: Marine

Contract	Customer	Start	End	Country	Notes
Type 31	UK MOD	2019	2028	UK	Design, build and assembly of five general purpose frigates for the Royal Navy
MSDF	UK MOD	2014	2021	UK	Warship support and surface fleet infrastructure elements of MSDF
VISSC	RCN	2008	2022	Can	Victoria In Service Support Contract to sustain Royal Canadian Navy's submarine programme
Canberra Class support	RAN	2019	2025	Aus	NSM JV. 5 year (with 2 x 5 year options) support contract for Royal Australian Navy's two largest warships, the Canberra Class Landing Helicopter Docks (LHDs)
NZ dockyard management	RNZN	2015	2022	NZ	Management of Devonport Dockyard in Auckland and sustainment of Royal New Zealand Navy fleet
MSSP	UK MOD	2017	2024	UK	Maritime Systems Support Partner. Technical Authority and equipment support package for QEC and T45 classes
Defence High Frequency Comms	UK MOD	2003	2021	UK	Operate high tech equipment to transmit and receive messages for UK and NATO forces around the globe
FOAP Training	UK MOD	2012	2021	UK	Fleet Outsourced Activities Project. Royal Navy training delivery and support, 7-year contract with 2-year extension signed
WAMA	RAN	2018	2024	Aus	NSM JV. Warship Asset Management Agreement. Sustainment of the ANZAC class frigates

Key contracts: Nuclear

Contract	Customer	Start	End	Country	Notes
MSDF	UK MOD	2014	2021	UK	Nuclear submarine, infrastructure and license site elements of MSDF
Dounreay	NDA	2012	TBD	UK	JV with CH2M and Aecom, decommissioning, demolition and restoration of Dounreay
Hinkley Point C – MEH Alliance	EDF	2022	2028	UK	JV alliance to deliver mechanical, electrical, heating, ventilation and air conditioning at HPC
Sellafield Design Services Alliance	Sellafield	2012	2027	UK	15 year framework contract providing design and engineering services to Sellafield
EDF Energy Lifetime Enterprise Agreement	EDF	2015	2030	UK	Providing fuel route and other services to advanced gas cooled reactors until the last of 7 reactors ceases power generation in c.2030
AWE decommissioning	AWE	2020	2030	UK	Site manager for decommissioning of AWE's complex
Hinkley Point C	EDF	2019	2027	UK	JV with Boccard, early contractor involvement studies and early works installation package for Hinkley Point C new build reactor
Sellafield Glove boxes	Sellafield	2017	2027	UK	Glove Box Systems to process nuclear material

Key contracts: Land defence

Contract	Customer	Start	End	Country	Notes
RSME - Royal School of Mechanical Engineers	UK MOD	2008	2038	UK	Provision of training and associated support services Joint venture
DSG - Defence Support Group	UK MOD	2015	2025	UK	Maintenance, repair and overhaul to over 35,000 vehicles of the British Army's A and B Vehicle fleets. Option for 5 x 1 year extensions
Phoenix II – White fleet	UK MOD	2016	2022	UK	Fleet management services for the British Army's c.15,000 vehicle white fleet, including procurement of vehicles and services
ALC - Construction vehicle fleet	UK MOD	2005	2021	UK	JV with Amey, C-Vehicle service provision and support for over 2,000 British Army construction vehicles
DCTT - Defence College of Technical Training	UK MOD	2014	2021	UK	Technical training of electrical mechanical engineering
TMASS II - Training Maintenance and Support Services	UK MOD	2016	2022	UK	Training maintenance and support provider to British Army Armoured Centre

Key contracts: Land civil

Contract	Customer	Start	End	Country	Notes
London Fire Brigade (LFB) fleet management	LFB	2014	2035	UK	Technical fleet management of the LFBs 430 vehicles and around 45,000 pieces of firefighting equipment
London Fire Brigade (LFB) training	LFB	2012	2037	UK	Delivering over 200 training programmes to c 5,000 firefighters from two new state of the art facilities, 97,000 delegate days of training pa
London Metropolitan Police Service (MPS) training	MPS	2020	2028	UK	Police Education and Qualification Framework providing initial training to police recruits
London Metropolitan Police Service (MPS) fleet management	MPS	2006	2020	UK	Managing and overseeing the repair and maintenance for the fleet, and specialist equipment, including short and medium term rental requirements
Control Period 6&7	Network Rail	2019	2029	UK	Awarded preferred bidder for track and signalling work, phases 6&7, Scottish regions
Signalling and telecoms	Translink	2017	2024	UK	Signalling and Telecoms framework in Northern Ireland

Key contracts: Aviation

Contract	Customer	Start	End	Country	Notes
Fomedec	French DOD	2017	2028	France	Provision of aircraft, training and maintenance to French Air Force
HADES	UK MOD	2018	2023	UK	Air station support. Provision of engineering services and technical aviation services to 17 air stations across the UK
Victoria Air Ambulance	Victoria Gov	2016	2026	Australia	HEMS contract, 6 specially configured AW139 aircraft
Norwegian FW EMS	Norwegian Government	2019	2025	Norway	Provision and fully operational EMS service of 11 specialist fixed-wing aircraft from summer 2019. Option to extend by further 5 years
Italy Firefighting	Ministry of Interior	2018	2022	Italy	Operation and maintenance of 19 Government owned CL-415 Canadair aircraft. Option to extend by further 4 years
Salvamento Sasemar	Spanish Coastguard	2018	2022	Spain	Spanish coastguard search and rescue contract, 14 aircraft, 13 bases. Option to extend by further 2 years
Manitoba - Fire Fighting	Manitoba state government	2018	2028	Canada	Market entry FF contract in Canada operated under Babcock Canada with Babcock owned surveillance aircraft and customer owned Canadair water bombers. Option to extend by further 3 years
UK Military Flying Training System	UK MOD	2008	2033	UK	Ascent 50/50 JV with Lockheed Martin - rotary and fixed-wing flight training
AirTanker	UK MOD	2008	2035	UK	JV with Babcock, Thales, Rolls-Royce, Cobham and Airbus. Infrastructure that supports air-to-air refueling and air-transport operations