



# Full year results

for the year ended 31 March 2019

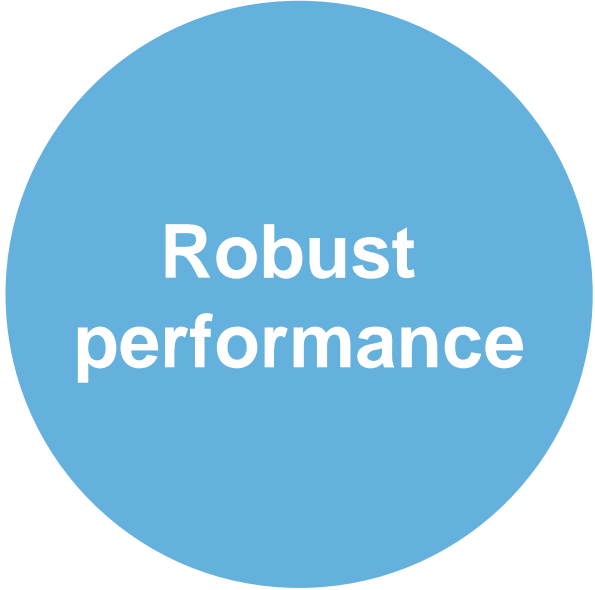
22 May 2019



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A large blue circle containing the text "Robust performance" in white.

**Robust  
performance**

A large blue circle containing the text "Strong cash generation" in white.

**Strong  
cash  
generation**

A large blue circle containing the text "Strengthening platform for the future" in white.

**Strengthening  
platform for  
the future**

# Operational highlights across sectors



## Marine

- QEC programme near completion
- Surface warship sustainment
- Submarine programmes
- Good international progress
- Technology and Commercial Marine

## Land

- DSG transformation
- Army defence training
- Rail CP6&7 contract
- South Africa equipment business
- Emergency Services

## Aviation

- French pilot training now operational
- Renewed SASEMAR contract in Spain
- Entered Canadian Aerial firefighting
- Mobilised Scandinavia Emergency Medical Services

## Nuclear

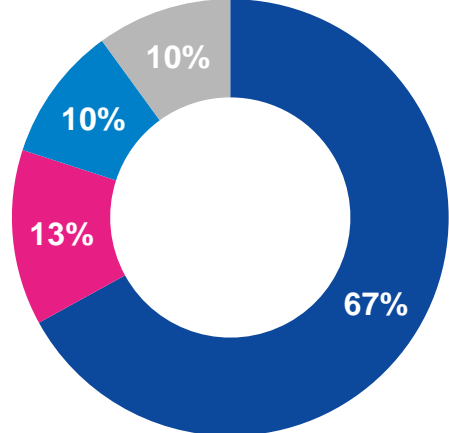
- Magnox on course for return to BEIS
- Hinkley Point C progressing
- Nuclear Services, Sellafield, AWE
- Good progress at Dounreay

# Combined order book and pipeline of £31 billion

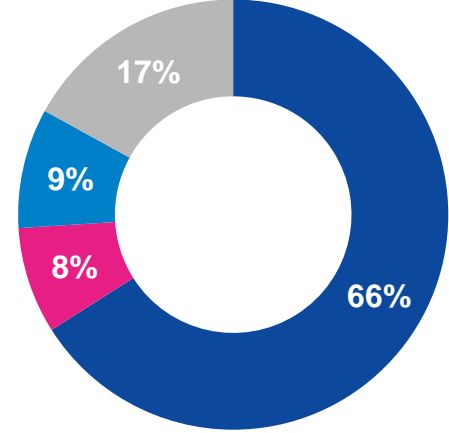


- Defence
- Aerial Emergency Services
- Nuclear
- Adjacent markets

Order Book  
£17bn



Pipeline  
£14bn



- **£4.5bn** order intake in period, **£1.0bn** of which not through pipeline
- **77%** of FY20 revenue secured, **51%** of FY21
- **87%** contracts > £25 million

- **c.£1bn** increase since March 2018
- **Key additions in the year:** Marine training, UK defence fleet vehicles, defence opportunities in Australia
- **89%** contracts > £25 million

# Operational excellence

- Health and safety remains our top priority and we can always do better
- Enhancing infrastructure, processes and systems through capital investment, increasing use of technology, developing our people's skills
- Delivering improved productivity in close partnership with our customers and key suppliers
- Strategic Partnering Programme playing a key role in driving improvements in operational excellence
- Investment in technology to deliver innovation, improved availability and cost reduction





# Significant UK contracts secured in the year

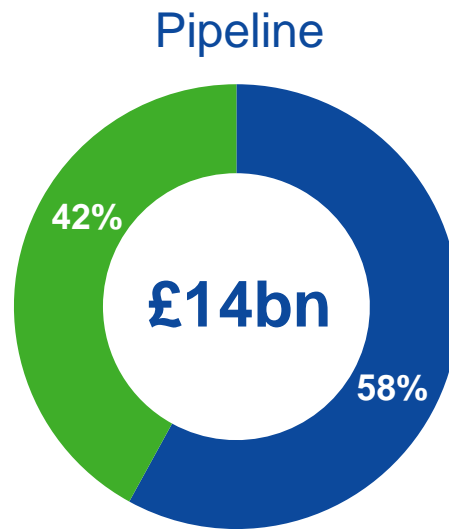
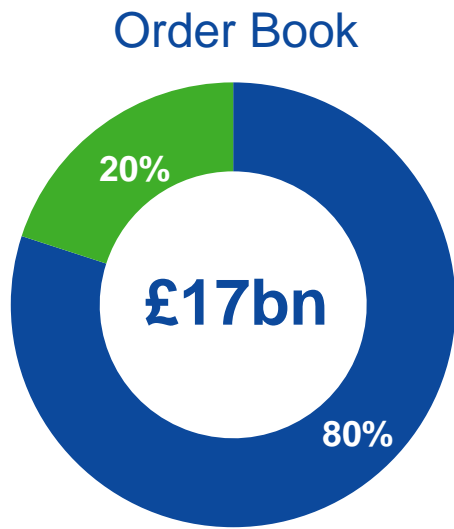
- Maritime Training Systems Through-Life Availability and Support Service
- Lead partner in UK Naval Design Partnership
- Expansion of US-UK Common Missile Compartment manufacturing programme
- Contract scope expansions in Defence Support Group
- Dounreay Materials Test Reactor Dismantling
- Ten years of Rail engineering contracts in Control Period 6 and 7



# Continue to grow international businesses



■ UK ■ International



- International now 30% of Group revenue
- Focus on key markets:
  - Australia and New Zealand
  - Canada
  - South Africa
  - France, Spain, Portugal, Italy, Scandinavia
- Expanding presence in South Korea and Japan
- **Significant contract wins in the year:**
  - Australia LHD
  - Aerial firefighting in Canada



- **Reshaped Oil & Gas business**
- **Rightsized areas of the business**
- **Exited non-strategic businesses**



A large ship is under construction in a dry dock. The ship's hull is dark grey, and a section of the hull is painted red. The ship is surrounded by scaffolding and construction equipment. A blue crane is visible on the left side of the ship. The sky is blue with some clouds. The word "babcock" is written in white in the top left corner.

**babcock**<sup>TM</sup>



# Financial review

Franco Martinelli  
Group Finance Director



# Profit growth and strong cash generation



Revenue **£5,161m**  
down 1.9%<sup>1</sup>

Operating profit **£588m**  
up 1.3%<sup>1</sup>

**£161m** exceptional  
charges to operating profit

Net cash costs  
**c.£26m**

Operating cash  
conversion<sup>2</sup> **104%**

FCF<sup>3</sup> increasing to  
**£324m**

Net debt of **£958m**, down  
£157m year on year

Underlying basic EPS  
up **1.2%**

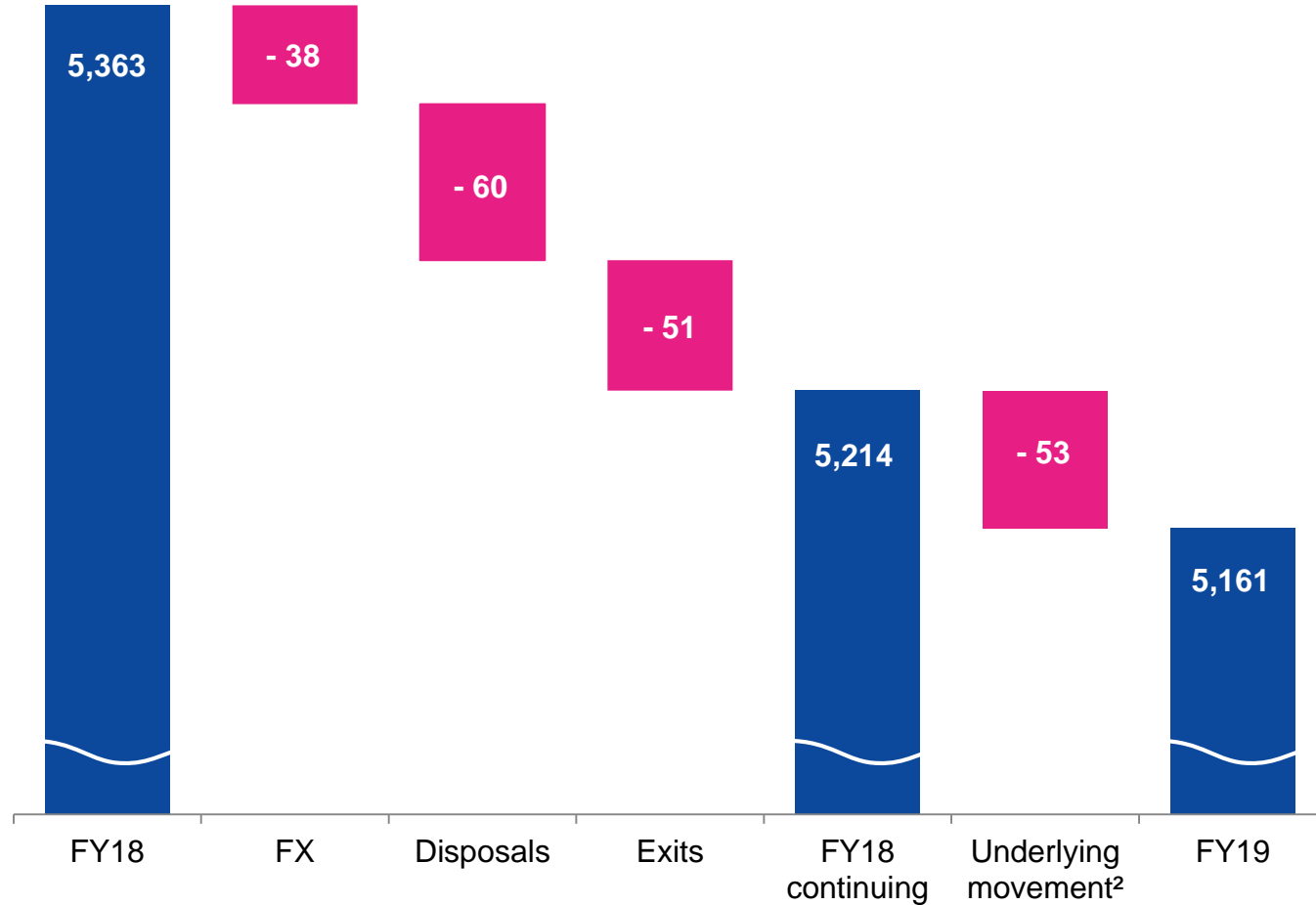
Full year dividend  
up **1.7%**



# Revenue performance impacted by FX, exits and QEC



(£m)

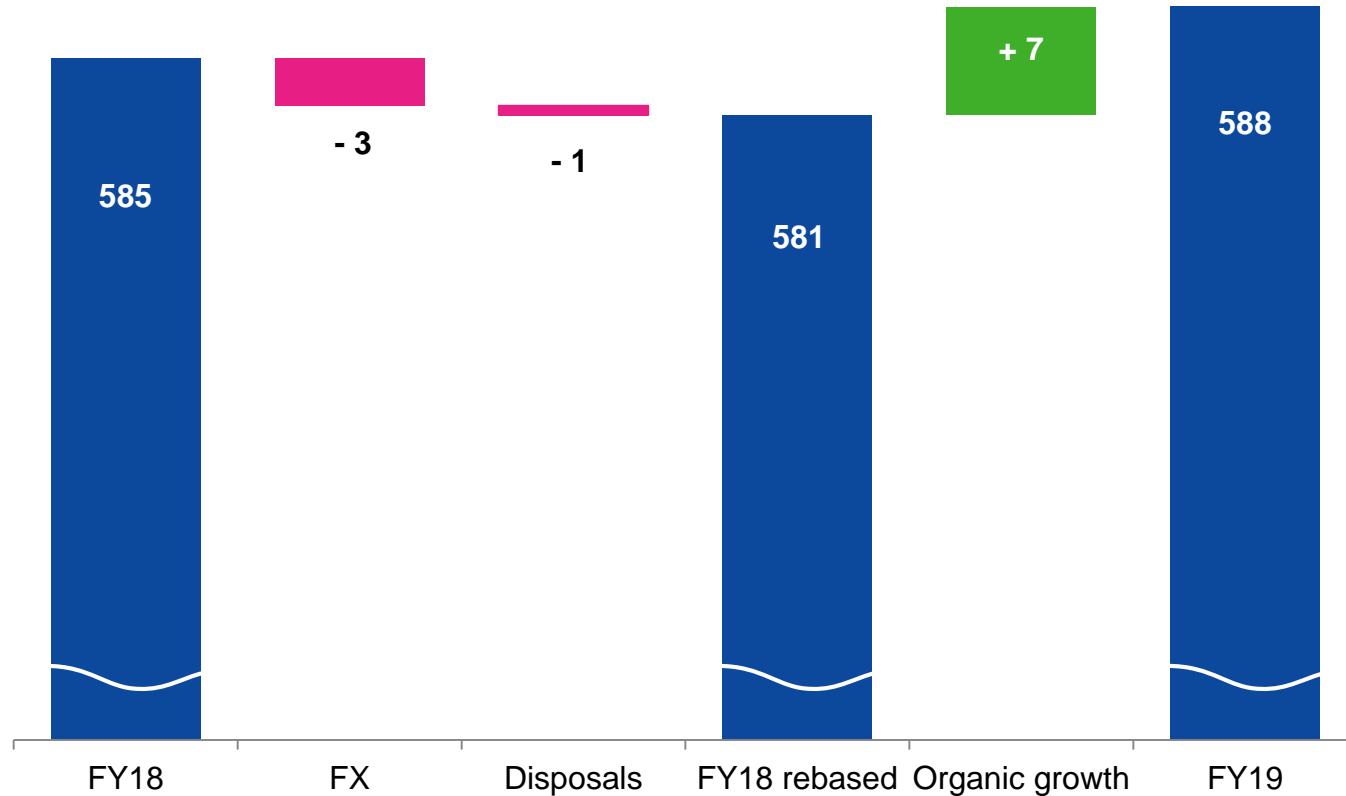


- Reported revenue growth **-3.8%**
- Organic revenue growth **-1.9%**<sup>1</sup>
- **-1.0%**<sup>1</sup> adjusting for exits
- Organic growth across focus markets excluding QEC and procurement around **3%**
- Weakness in procurement and short cycle businesses

# Strong margin led to operating profit growth



(£m)



- Exits and disposals mainly low margin
- Revenue drop in low margin businesses and procurement
- Good contract performances in Group and JVs
- Continuous operational efficiency programmes

# Underlying results



	FY19 (£m)	FY18 (£m)	Change	Organic growth <sup>1</sup>
Total revenue	<b>5,161</b>	5,363	-3.8%	-1.9%
Operating profit	<b>588</b>	585	0.7%	1.3%
Operating margin	<b>11.4%</b>	10.9%		
Profit before tax	<b>518</b>	513	1.1%	
Basic EPS	<b>84.0p</b>	83.0p	1.2%	
Full year dividend	<b>30.0p</b>	29.5p	1.7%	

- Exits from low margin businesses and JV performance contributed to increased margin
- Margin excluding JVs sustained at **10.1%**
- Full year dividend up **1.7%**



# Underlying operating profit reconciliation



	FY19 (£m)	FY18 (£m)	Movement
Underlying operating profit	<b>588</b>	585	3
Exceptional items	<b>(161)</b>	-	(161)
Joint ventures and associates	<b>(106)</b>	(86)	(20)
IFRIC 12	<b>(29)</b>	(30)	1
Amortisation of acquired intangibles	<b>(95)</b>	(98)	3
Statutory operating profit	<b>197</b>	371	(174)

- Exceptional items of £161m
- Share of JV profit is 23% of underlying profit (FY18: 20%) – reducing going forwards
- Increased JV contribution led by contract performance in Land and Aviation
- IFRIC 12 and amortisation of acquired intangibles reducing

# Exceptional charges



	H1 P&L costs (£m)	H2 P&L costs (£m)	FY19 P&L cost (£m)
Oil and gas	80	1	81
Capacity reduction and restructuring	40	3	43
Exits	15	6	21
Business disposals	(15)	-	(15)
<b>Subtotal</b>	120	10	130
Pensions GMP/bulk transfer	-	31	31
<b>Total</b>	120	41	161
Tax on exceptional costs within operating profit	(19)	(8)	(27)
Tax charge on Brexit related Aviation restructuring	-	10	10
<b>Net</b>	101	43	144

## Taking strategic actions

- £120m charges in H1, mostly reshaping oil and gas business
- £10m charges in H2 – timing of actions

## Pension

- £31m adjustment to pension liabilities, mostly to equalise guaranteed minimum pension benefits for men and women

## Tax

- One-off tax charge of £10m for the restructure of our Aviation business in preparation of the UK's exit from the EU
- Cash payment in FY20

## Net cash impact

- Total net impact of £26m
- FY19: £11m

# Marine: growth maintained excl. QEC



	FY19 (£m)	FY18 (£m)	Change	Organic growth <sup>1</sup>
Revenue	<b>1,707</b>	1,789	-4.6%	-4.5%
Continuing revenue	<b>1,706</b>	1,763	-3.3%	-3.1%
Operating profit	<b>221</b>	235	-6.2%	-6.1%
Operating margin	<b>12.9%</b>	13.1%		

- QEC revenue step down c.£60m in FY19
- Increased activity on UK naval ships
- Infrastructure spend initially delayed, now starting
- Equipment spend slow to start, now starting to increase
- Margin maintained:
  - Business mix
  - Contract performance
  - QEC stepdown

## FY20 outlook:

- Good revenue growth excl. QEC
- Margin slightly lower due to contract mix



# Land: growth impacted by exits and disposals



	FY19 (£m)	FY18 (£m)	Change	Organic growth <sup>1</sup>
Revenue	<b>1,620</b>	1,849	-12.4%	-7.6%
Continuing revenue	<b>1,554</b>	1,697	-8.4%	-6.2%
Operating profit	<b>146</b>	140	4.2%	5.9%
Operating margin	<b>9.0%</b>	7.6%		

- Revenue impacted by exits, disposals and FX
- Lower defence procurement activity
- Weak trading in SA power business
- Lower activity in Rail and UK Power
- Operating profit:
  - Higher contribution from JVs
  - Improved contract performances
  - Continuous cost savings
  - Increased profits in South Africa equipment business

## FY20 outlook:

- Slight revenue growth excl. exits
- Margins maintained excl. Holdfast

# Aviation: margins maintained in a year of growth



	FY19 (£m)	FY18 (£m)	Change	Organic growth <sup>1</sup>
Revenue	1,136	1,022	11.1%	11.9%
Operating profit	161	144	11.2%	12.0%
Operating margin	14.1%	14.1%		

- Revenue growth in Fomedec partially offset by lower firefighting activity, especially in H2
- Oil & Gas remains challenging
- Margins maintained ahead of expectations
  - Contract performance in JVs and core business
  - Cost reduction programmes

## FY20 outlook:

- Slight revenue growth
- Margins maintained excl. Brexit costs

# Nuclear: stable year on year



	FY19 (£m)	FY18 (£m)	Change	Organic growth <sup>1</sup>
Revenue	698	703	-0.6%	-0.6%
Operating profit	64	69	-6.7%	-6.7%
Operating margin	9.2%	9.8%		

- Lower levels of decommissioning work as expected
- Good growth across nuclear services
- Previous financial year benefitted from gainshare at end of contracts
- New growth in FY19 at initial low margin

## **FY20 outlook:**

- Slight revenue growth excl. Magnox
- Higher margin reflecting mix



# Maintaining strong operating cash flow conversion



	FY19 (£m)	FY18 (£m)
Underlying operating profit excluding JVs <sup>1</sup>	<b>452</b>	469
Amortisation and depreciation	<b>109</b>	104
Other non-cash items	<b>(1)</b>	4
- Debtors	<b>118</b>	(20)
- Creditors	<b>4</b>	(137)
- Inventory	<b>(35)</b>	103
Working capital (excl. provisions)	<b>87</b>	(54)
Provisions	<b>(29)</b>	(28)
Operating cash flow	<b>618</b>	495
Net capital expenditure (capex)	<b>(149)</b>	(113)
Operating cash flow after capex	<b>469</b>	382
Cash conversion <sup>2</sup>	<b>104%</b>	82%
Net capital expenditure/depreciation	<b>1.4x</b>	1.1x

- Cash conversion of 104% post-capex, ahead of target and a record level
- Led by strong working capital performance
- Capex increase due to timing of aircraft deposits and deliveries – reverses next year as convert to operating leases
- Provisions slide in appendix
- Inventory increase relates to:
  - Contract mobilisation: Fomedec, Norway
  - Brexit
  - South African activity

# Working capital detail: receivables and payables



## Receivables:

	FY19 (£m)	FY18 (£m)	Change (£m)
Trade receivables	250	278	(28)
Unbilled receivables <sup>1</sup>	462	581	(119)

## Payables:

	FY19 (£m)	FY18 (£m)	Change (£m)
Trade creditors	511	545	(34)
Contract balances <sup>2</sup>	421	413	8

- Trade receivables down £28m
- Unbilled receivables<sup>1</sup> down £119m year on year including:
  - Fomedec reversal
  - Devonport improvement
  - DSG accrued income increase, reverses in FY20

- Trade creditors down £34m
- Contract balances stable

22 1. Comprises amounts due for contract work, accrued income and capitalised contract costs  
2. Comprises contract cost accruals, advanced payments and deferred income

# Higher free cash flow and net cash generation

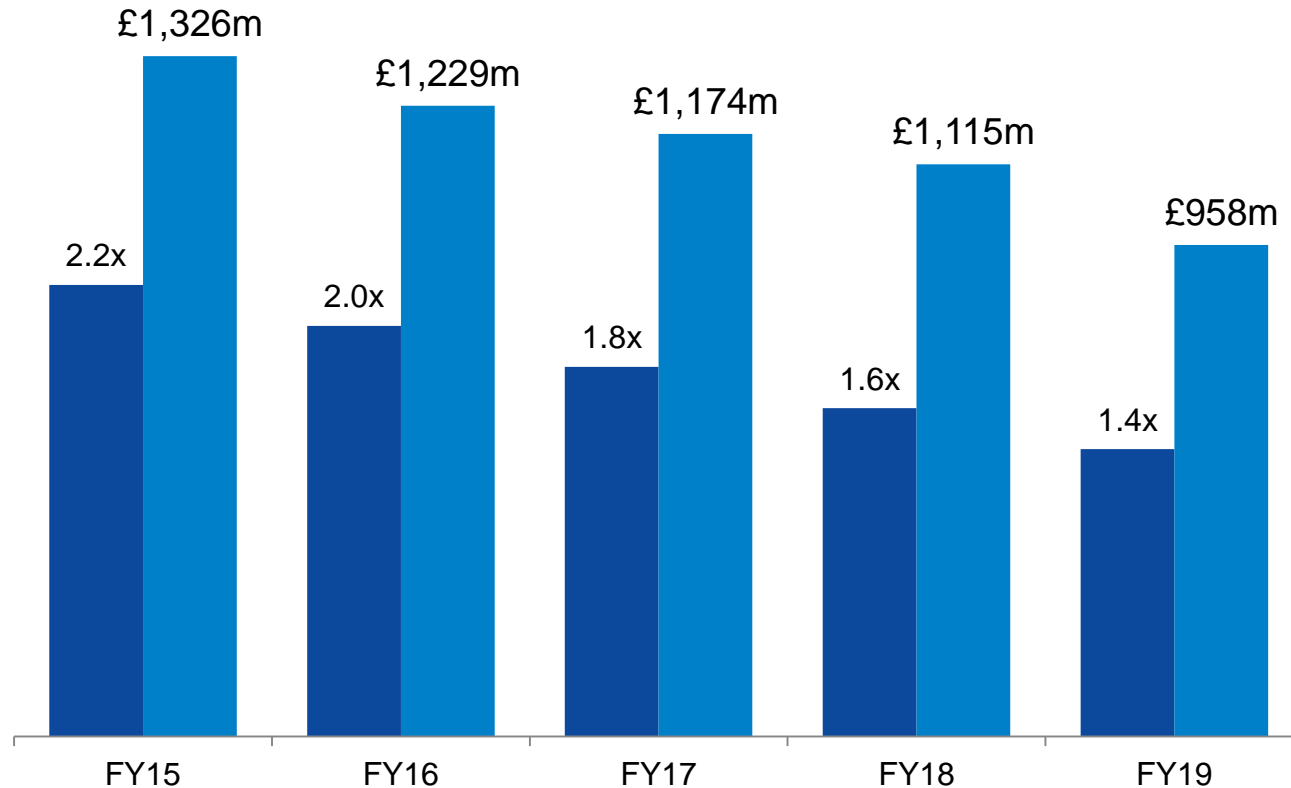


	FY19 (£m)	FY18 (£m)
Operating cash flow after capex	469	382
Net interest paid	(47)	(54)
Taxation	(87)	(74)
Dividends from JVs	45	43
Pensions contributions in excess of income statement	(56)	(47)
<b>Free cash flow</b>	<b>324</b>	<b>250</b>
<i>Cash conversion: FCF/underlying net income<sup>1</sup></i>	<b>76%</b>	60%
Dividends paid	(153)	(148)
Acquisitions/other	1	(10)
Net cash cost of exceptional items	(11)	-
<b>Net cash inflow (before FX)</b>	<b>158</b>	<b>92</b>

- Strong free cash flow performance
- Net cash generation of **£158m**
- FCF/net income **76%** with gap mainly JV cash gap and pension contribution

# Continuing to de-gear

■ Net debt/EBITDA ■ Net debt



- Net debt<sup>1</sup>: **£958m** – down £157m year on year
- Net debt to EBITDA<sup>2</sup> ratio 1.4x (FY18: 1.6x)
- Covenant basis<sup>3</sup>: 1.8x to 1.6x
- Expect to continue to reduce net debt in FY20, excluding IFRS 16 impact

24

1. Net debt excludes £311m of non-recourse JV net debt, mainly held in AirTanker and Ascent
2. EBITDA of £696m
3. Group net debt / (Group EBITDA + JV dividends)



## **Overview:**

- Effective for FY20
- Operating leases capitalised on the balance sheet
- Future lease payments recognised as lease liability
- Corresponding right-of-use asset depreciated on straight line basis over lease term
- Operating lease charge replaced by depreciation on asset and interest on lease liability

## **Transition approach:**

- Report FY20 on new basis without restated comparatives (“modified retrospective” method)

# IFRS 16: impacts

## On 1 April 2019:

- £606m operating leases recognised as lease liability
- £559m recognised as corresponding right-of-use asset
- 78% of lease liability relates to aircraft in Aviation sector

## Estimated impact to FY20 results:

- Operating profit up c.£25m
- Interest up c.£25m
- Minimal impact to EPS
- EBITDA up c.£150m
- Net debt / EBITDA up c.0.5x

## FY20 guidance:

- Does **not** include IFRS 16 impacts, updated view at H1 results



# Pensions: IAS 19



(£m)	FY19	FY18
Assets	4,582	4,735
Obligations	(4,610)	(4,740)
Net deficit	(28)	(5)

Underlying income statement impact (£m)	FY20E	FY19	FY18
Service cost	39	39	43
Incurred expenses	4	4	5
Net interest cost	-	-	2
Total impact <sup>1</sup>	43	43	50

Key assumptions	FY19	FY18
Discount rate	2.4%	2.6%
Inflation (RPI)	3.2%	3.1%

- IAS 19 deficit £28m (2018: £5m)
- Technical provisions (funding basis) estimate at year end c.£400m
- IAS 19 to technical provisions gap due to prudence of assumptions and discount rates

## Actions:

- Bulk transfer of liabilities back to customer
- Closure of BIGPS<sup>2</sup> to future accrual (excl. protected members)
- Negotiating Rosyth scheme increase in contributions to be agreed

# Joint ventures: significant cash dividend stream



## JV performance

All £m	FY19			FY18		
	Total	Asset	Operational	Total	Asset	Operational
Total underlying profit	135	89	46	114	68	46
Profit after tax	90	53	37	74	37	37
Dividends	(45)	(19)	(26)	(43)	(9)	(34)
Cash gap	45	34	11	31	28	3

- Improved contract performance in Aviation and Land
- Cash gap:
  - Asset JVs – long term timing difference
  - Operational JVs – short term timing difference
- Our share of distributable reserves: **c.£150m** – future dividend
- Similar dividends for next three years but then stepdown

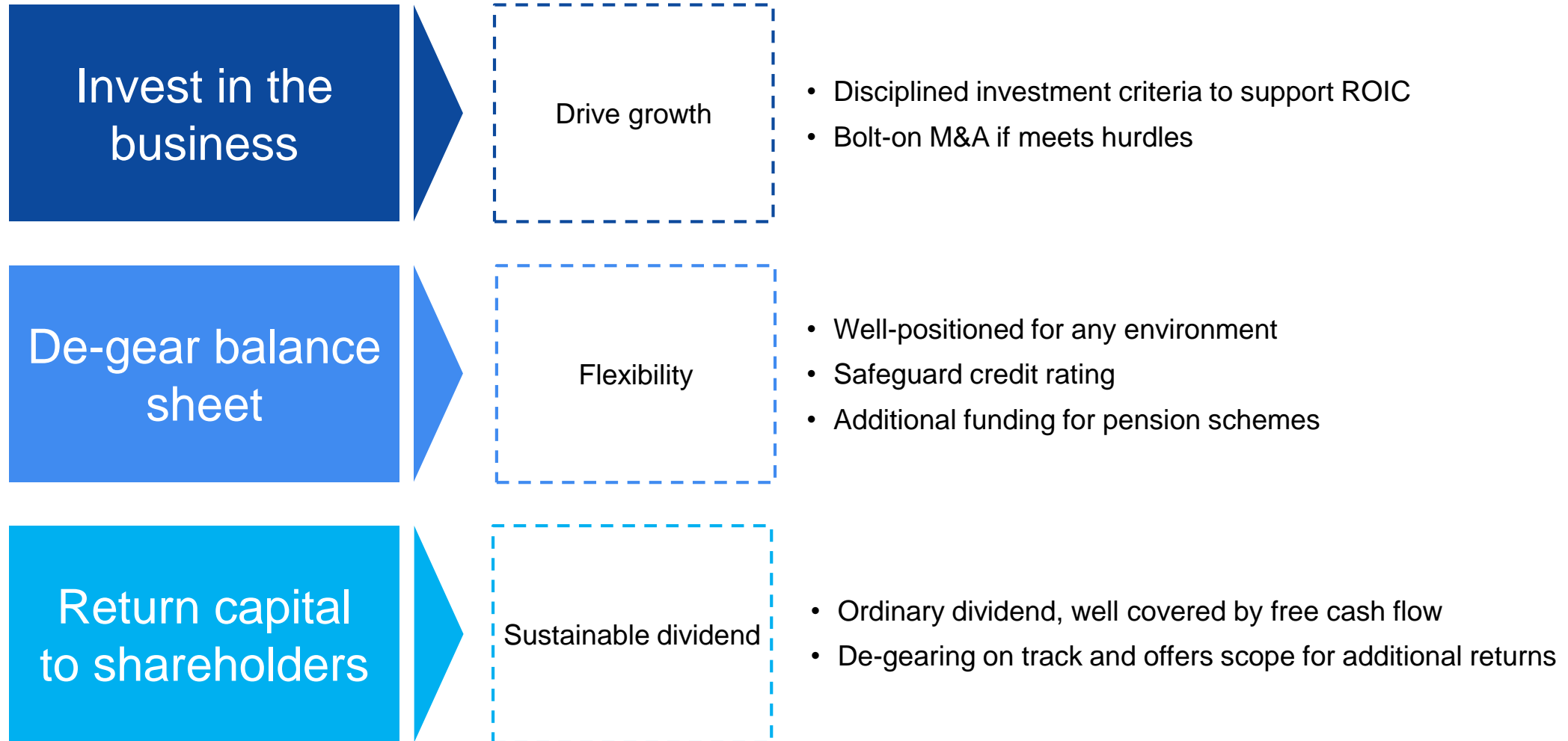
## JV net debt

All £m	Cash	Loans	Net debt	Babcock share
AirTanker	390	(2,290)	(1,900)	(248)
Ascent	54	(168)	(114)	(57)
Others	38	(55)	(17)	(6)
<b>Total</b>	<b>482</b>	<b>(2,513)</b>	<b>(2,031)</b>	<b>(311)</b>

- All JV debt is non-recourse to the Group
- JV debt mostly in AirTanker
- Significant cash balances: JV performances, scheduled debt repayments
- Babcock share of net debt **£311m** (FY18: £354m)
- Sale of Helidax reduced our share by £29m



# Capital allocation priorities



# FY20 guidance: rebasing FY19



	Revenue (£m)	Operating profit (£m)	Margin
FY19	5,161	588	11.4%
Step downs	(410)	(63)	
Rebased FY19	<b>4,751</b>	<b>525</b>	<b>11.0%</b>

## Step downs increased slightly from February update:

- Revenue: Magnox and QEC trading
- Operating profit: actual trading Magnox (£4m), Holdfast (£2m), further exits (£7m)

- **Revenue:** expected to be around £4.9bn
- **Margin:** expect to maintain between 10.7% to 11.0%
- **Operating profit:** expected to be in the range £515m to £535m
- **Free cash flow:** expected to be over £250m
- **Performance weighted to H2**, especially for cash generation

# FY20 guidance: cash flow detail



	FY19	FY20
Net capex/depreciation	1.4x	↓
Working capital inflow excl. FOMEDEC (£m)	37	↓
Provisions (£m)	(29)	↓
JV dividends (£m)	45	=
Pensions <sup>1</sup> (£m)	(56)	↑
Free cash flow (£m)	324	> 250

- Net capex/depreciation to decrease to c.1.0x
- Working capital:
  - Normalised outflow
  - Reversal of FY19 over performance
- Non-exceptional provision outflow c.£15m
- JV dividends stable
- Pensions will reflect Rosyth negotiation

# Our priorities: drive value for customers and shareholders



Sustain margins	<ul style="list-style-type: none"><li>• Strong FY19 performance</li><li>• Continuing cost focus</li><li>• Bidding control</li></ul>
Cash generation	<ul style="list-style-type: none"><li>• Strong FY19 performance</li><li>• Zero based budgeting for working capital</li></ul>
De-gearing	<ul style="list-style-type: none"><li>• De-gearred in FY19</li><li>• Further debt reduction in FY20</li></ul>
Customer and shareholder value	<ul style="list-style-type: none"><li>• Deliver savings for customers</li><li>• Focus on cash returns on capital</li></ul>

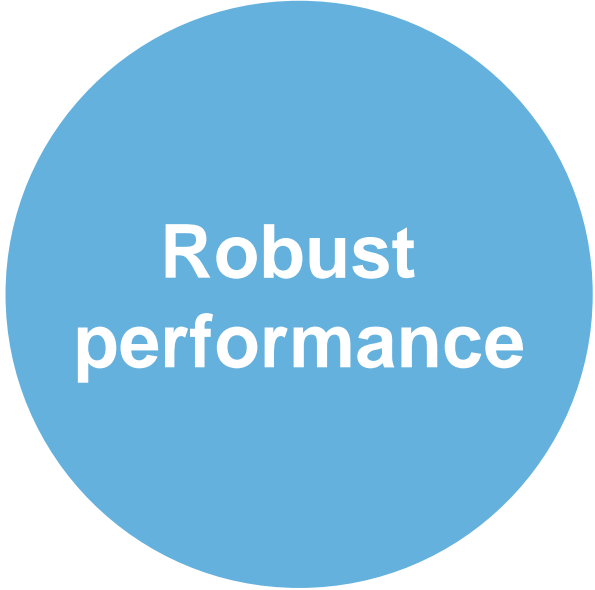


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# Summary

Archie Bethel  
Chief Executive Office

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**Appendix**

# Revenue growth detail



	Reported revenue growth			Organic revenue growth <sup>1</sup>			Organic revenue growth <sup>1</sup> excl. exits		
	H1	H2	FY19	H1	H2	FY19	H1	H2	FY19
Marine	-6.6%	-2.6%	<b>-4.6%</b>	-6.2%	-2.7%	<b>-4.5%</b>	-3.5%	-2.6%	<b>-3.1%</b>
Land	-14.6%	-10.1%	<b>-12.4%</b>	-11.9%	-3.2%	<b>-7.6%</b>	-9.9%	-2.5%	<b>-6.2%</b>
Aviation	23.6%	-0.8%	<b>11.1%</b>	24.2%	0.2%	<b>11.9%</b>	24.2%	0.2%	<b>11.9%</b>
Nuclear	4.8%	-5.2%	<b>-0.6%</b>	4.8%	-5.2%	<b>-0.6%</b>	4.8%	-5.2%	<b>-0.6%</b>
Group	<b>-2.3%</b>	<b>-5.1%</b>	<b>-3.8%</b>	<b>-1.1%</b>	<b>-2.7%</b>	<b>-1.9%</b>	<b>0.5%</b>	<b>-2.4%</b>	<b>-1.0%</b>

- Marine and Land improvement in H2
- Aviation H1 loaded: Fomedec
- Nuclear impacted by Magnox step down in H2



# FY20 guidance: rebasing FY19 detail



	Revenue (£m)	Operating profit (£m)	Margin
FY19	5,161	588	11.4%
<b>Step downs:</b>			
End of QEC contract	(80)	(2)	
End of Magnox contract	(256)	(24)	
Impact of exits and disposals	(74)	(10)	
Normalisation of Holdfast profit contribution		(17)	
Brexit-related Aviation restructuring		(10)	
<b>Rebased FY19</b>	<b>4,751</b>	<b>525</b>	<b>11.0%</b>

# Underlying segmental analysis



		Revenue (£m)		Operating profit (£m)		Operating margin	
		FY 19	FY 18	FY 19	FY 18	FY 19	FY 18
<b>Marine</b>	Group	1,686.3	1,766.5	217.2	231.3	12.9%	13.1%
	JV	20.3	22.4	3.3	3.8	16.3%	17.0%
	Total	1,706.6	1,788.9	220.5	235.1	12.9%	13.1%
<b>Land</b>	Group	1,560.0	1,760.4	105.1	108.7	6.7%	6.2%
	JV	60.2	88.7	40.9	31.4	67.9%	35.4%
	Total	1,620.2	1,849.1	146.0	140.1	9.0%	7.6%
<b>Aviation</b>	Group	995.9	921.1	107.1	103.1	10.8%	11.2%
	JV	139.6	101.0	53.4	41.2	38.3%	40.8%
	Total	1,135.5	1,022.1	160.5	144.3	14.1%	14.1%
<b>Cavendish Nuclear</b>	Group	232.6	211.6	27.2	31.2	11.7%	14.7%
	JV	465.7	491.1	37.0	37.6	7.9%	7.7%
	Total	698.3	702.7	64.2	68.8	9.2%	9.8%
<b>Total</b>	Unallocated			(2.8)	(3.7)		
	Group	4,474.8	4,659.6	453.8	470.6	10.1%	10.1%
	JV	685.8	703.2	134.6	114.0	19.6%	16.2%
	Total	5,160.6	5,362.8	588.4	584.6	11.4%	10.9%

# 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 Mar 2019	Revenue	4,474.8	685.8						5,160.6
	Operating profit	196.5	106.8		29.1	95.2	160.8		588.4
	Share of profit from JV	83.8	(106.8)	24.1	20.9	(27.8)	5.8		-
	Investment income	1.3			(1.3)				-
	Net finance costs	(46.4)	(24.1)						(70.5)
	Profit before tax	235.2	-	-	20.9	-	101.0	160.8	517.9
	Tax	(35.4)			(20.9)		(21.5)	(16.7)	(93.2)
	Profit after tax	199.8	-	-	-	-	79.5	144.1	424.7
	Return on revenue	4.4%							11.4%
31 Mar 2018	Revenue	4,659.6	703.2						5,362.8
	Operating profit	370.6	85.9		30.0	98.1			584.6
	Share of profit from JV	68.5	(85.9)	22.2	17.5	(28.1)	5.8		-
	Investment income	1.9			(1.9)				-
	Net finance costs	(49.9)	(22.2)						(72.1)
	Profit before tax	391.1	-	-	17.5	-	103.9		512.5
	Tax	(53.4)			(17.5)		(22.2)	0.8	(92.3)
	Profit after tax	337.7	-	-	-	-	81.7	0.8	420.2
	Return on revenue	8.0%							10.9%

# Underlying organic growth



All values in £m	Marine	Land	Aviation	Cavendish Nuclear	Unallocated	Total
<b>Underlying revenue</b>						
At 31 March 2018	1,788.9	1,849.1	1,022.1	702.7		5,362.8
Exchange adjustment	(2.4)	(27.7)	(8.0)	-		(38.1)
Disposals	-	(60.3)	-	-		(60.3)
Exits	(25.0)	(25.5)	-	-		(50.5)
Organic growth	(54.9)	(115.4)	121.4	(4.4)		(53.3)
31 March 2019	1,706.6	1,620.2	1,135.5	698.3		5,160.6
Underlying revenue growth	-4.6%	-12.4%	11.1%	-0.6%		-3.8%
Organic growth <sup>1</sup>	-4.5%	-7.6%	11.9%	-0.6%		-1.9%
Organic growth <sup>1</sup> excluding exits	-3.1%	-6.2%	11.9%	-0.6%		-1.0%
<b>Underlying operating profit</b>						
As at 31 March 2018	235.1	140.1	144.3	68.8	(3.7)	584.6
Exchange adjustment	(0.3)	(1.7)	(1.1)	-	-	(3.1)
Disposals	-	(0.6)	-	-	-	(0.6)
Organic growth	(14.3)	8.2	17.3	(4.6)	0.9	7.5
31 March 2019	220.5	146.0	160.5	64.2	(2.8)	588.4
Underlying operating profit growth	-6.2%	4.2%	11.2%	-6.7%	-24.3%	0.7%
Organic growth <sup>1</sup>	-6.1%	5.9%	12.0%	-6.7%	-24.3%	1.3%

# 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	5.3	26.6	53.2	0.6	3.1	6.2	0.3	1.6	3.2
ZAR	3.3	16.3	32.6	0.2	1.0	2.0	0.2	0.9	1.8
CAD	1.4	6.9	13.7	0.1	0.4	0.9	0.1	0.5	0.9
SEK	1.1	5.5	10.9	0.2	0.8	1.6	0.1	0.6	1.3
AUD	1.7	8.3	16.7	0.0	0.2	0.4	0.0	0.1	0.3

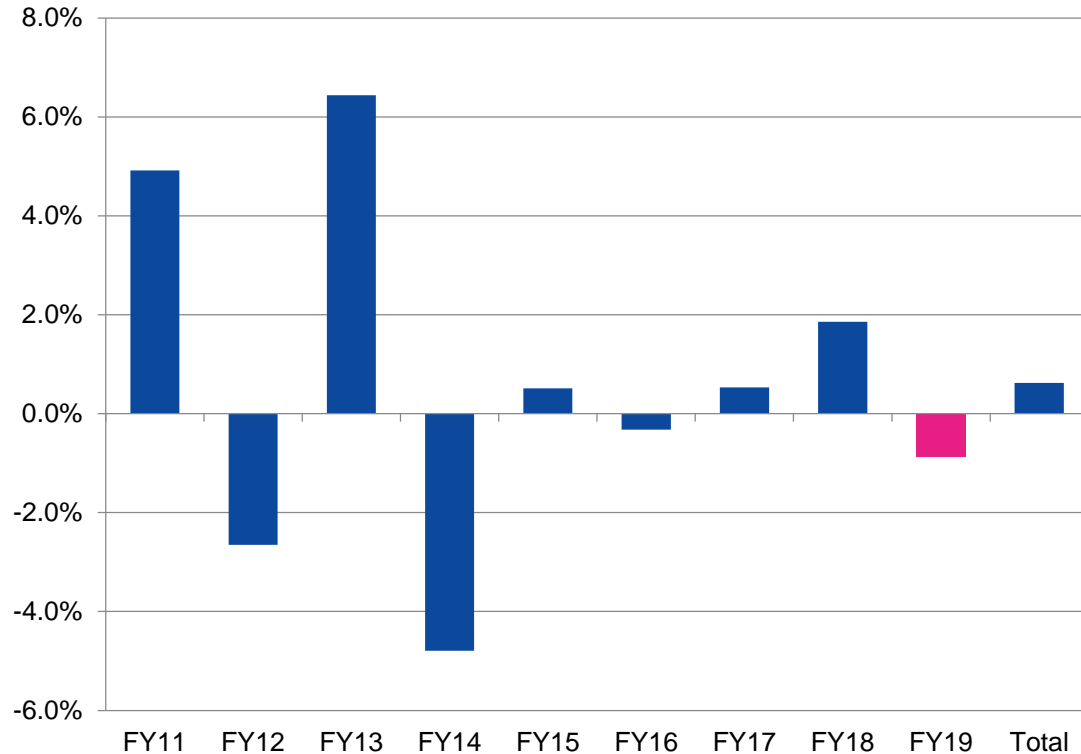


# Cash flow reconciliation



	FY19 (£m)	FY18 (£m)
Underlying cash generated from operations	562.0	447.9
Retirement benefit contributions in excess of income statement	55.8	47.3
Underlying operating cash flow	617.8	495.2

Charge/(release) as % of underlying profit<sup>1</sup>



- Full year net release £4.0m<sup>2</sup>
- Average of last nine years:
  - 0.6%<sup>2</sup> cumulative net charge as a % of underlying profit
  - 5%<sup>2</sup> cash utilisation of underlying operating profit
- Full year: £29m<sup>2</sup> cash outflow
  - 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, onerous leases, acquisitions and disposals

# Net capital expenditure



	FY19 (£m)	FY18 (£m)
Purchases of property, plant and equipment	<b>194.3</b>	150.4
Purchases of intangible assets	<b>32.7</b>	32.3
Proceeds on disposal of property, plant and equipment	<b>(78.5)</b>	(70.0)
Capital expenditure (net)	<b>148.5</b>	112.7

# Net income to FCF



	FY19 (£m)	FY18 (£m)
Statutory net income	199	336
Adjustments <sup>1</sup>	225	83
<b>Underlying net income</b>	<b>424</b>	<b>419</b>
Capex > depreciation	(40)	(8)
Pension > P&L	(56)	(47)
JV dividend gap	(45)	(31)
Working capital movement	87	(54)
Other <sup>2</sup>	(46)	(29)
<b>Free cash flow</b>	<b>324</b>	<b>250</b>
<b>Free cash flow / underlying net income</b>	<b>76%</b>	<b>60%</b>

- Free cash / underlying net income 76% vs. 60% in FY18
- Pensions and JV dividend gap largely offset by working capital

# Joint ventures



	Babcock underlying JVs	Share	Country	Sector	Start	End	
Asset JVs	Holdfast (RSME)	74%	UK	Land	2008	2038	<b>Asset JVs</b> <ul style="list-style-type: none"> <li>• Typically assets and debt</li> <li>• Dividends follow after paying down JV debt</li> <li>• Typically long-term</li> </ul>
	ALC	50%	UK	Land	2005	2021	
	Ascent	50%	UK	Aviation	2016	2033	
	Helidax	50%	UK	Aviation	2008	2029	
	AirTanker	13%	UK	Aviation	2008	2035	
	Bernhard Schulte	50%	Germany	Marine	2017	2027	
Operational JVs	Cavendish Fluor Partnership	65%	UK	Nuclear	2014	2019	<b>Operational JVs</b> <ul style="list-style-type: none"> <li>• Capability partnerships</li> <li>• No debt</li> <li>• Dividends follow profits, subject to short-term phasing</li> </ul>
	Cavendish Dounreay Partnership	50%	UK	Nuclear	2012	2030s	
	Naval Ship Management Australia	50%	Aus	Marine	2018	2024	
	ABC Electrification	33%	UK	Land	2014	2019	
	AirTanker Services	22%	UK	Aviation	2008	2035	



# Joint ventures: significant cash dividend stream



	FY19 (£m)			FY18 (£m)		
	Total	Assets	Operational	Total	Assets	Operational
Operating Profit	<b>107</b>	61	46	<b>86</b>	40	46
IFRIC 12	<b>28</b>	28	-	<b>28</b>	28	-
Total underlying profit	<b>135</b>	89	46	<b>114</b>	68	46
Finance costs	<b>(24)</b>	(24)	-	<b>(22)</b>	(22)	-
Profit before tax	<b>111</b>	65	46	<b>92</b>	46	46
Tax	<b>(21)</b>	(12)	(9)	<b>(18)</b>	(9)	(9)
Profit after tax	<b>90</b>	53	37	<b>74</b>	37	37
Dividends	<b>(45)</b>	(19)	(26)	<b>(43)</b>	(9)	(34)
Cash gap	<b>45</b>	34	11	<b>31</b>	28	3

