



# **Preliminary Results Presentation for Year Ending March 2004**

**babcock**

**Gordon Campbell**

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# Babcock Strategy 2000

- To enhance shareholder value by transforming itself into a fast growing support services business
- To exit low growth, cyclical material handling business
- To grow organically by securing major new defence outsourcing contracts and to be a leading supplier of services to the MoD
- To acquire niche businesses which will facilitate access to the civil market
- Sales growth in the training and support businesses between 2002/03 and 2003/04 was 41%. Group order book up from £0.6 billion to £1.0 billion
- Completed
- On MoD key supplier list. Base sales growth continues with SLAM, SWRP, Clyde Naval Base and RAF Valley
- Peterhouse meets the criteria



# Financial Review

**babcock**

**Bill Tame**



# Group Operating Result

£ Million	<u>2003/04</u>	<u>2002/03</u>	<u>% change</u>
Turnover			
• Continuing operations	438.0	377.9	16
• Discontinued operations	14.0	45.6	
Total	<u>452.0</u>	<u>423.5</u>	
Operating profit *			
• Continuing operations	25.5	23.0	11
• Discontinued operations	(0.3)	(2.2)	
Total	<u>25.2</u>	<u>20.8</u>	
Joint ventures & associates	0.1	(0.2)	
Interest	(2.2)	(2.6)	
Profit before tax *	<u>23.1</u>	<u>18.0</u>	<u>28</u>

\* *Before goodwill and exceptional items*



# Divisional Performance

	Turnover (£m)			Operating Profit (£m)*		
	2003/04	2002/03	% change	2003/04	2002/03	% change
<b>Training &amp; Support</b>						
• Naval Services (BNS)	87.6	48.7		5.3	1.2	
• Infrastructure Services (BIS)	24.3	16.5		1.0	0.9	
• Defence Services (BDS)	59.5	63.7		5.3	6.7	
• Babcock Africa (BAS)	81.5	49.9		3.8	1.3	
<b>Total</b>	<b>252.9</b>	<b>178.8</b>	<b>41</b>	<b>15.4</b>	<b>10.1</b>	<b>52</b>

\* Before goodwill and exceptional items



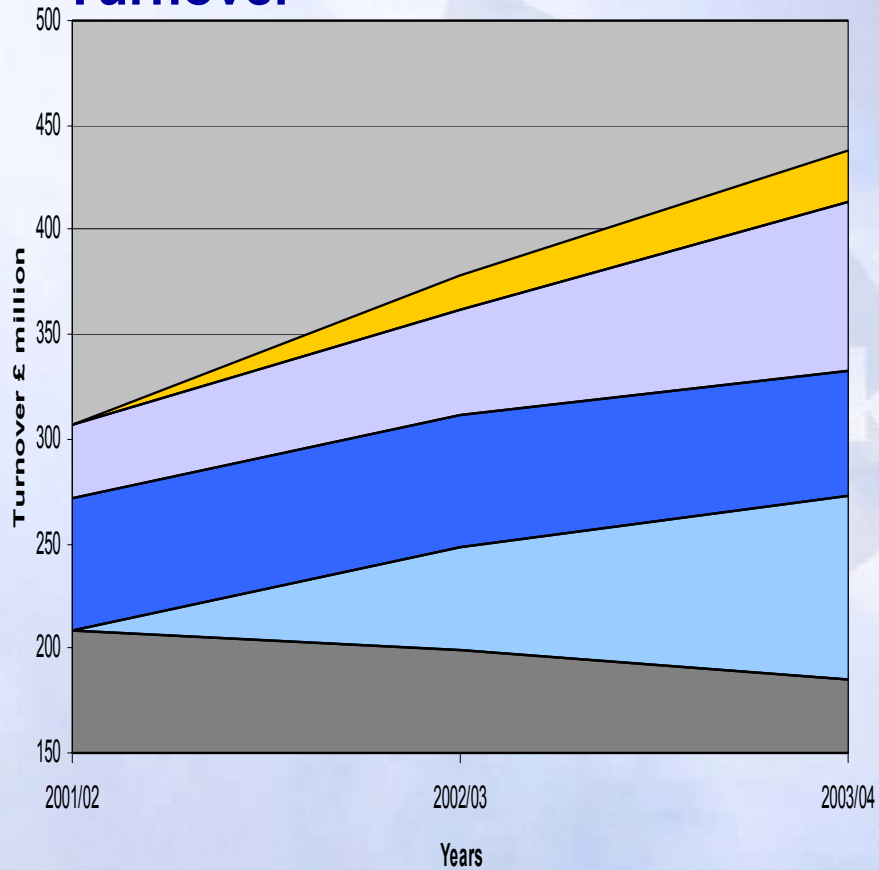
# Divisional Performance

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• Defence Services (BDS)	59.5	63.7		5.3	6.7	
• Babcock Africa (BAS)	81.5	49.9		3.8	1.3	
<b>Sub Total</b>	<b>252.9</b>	<b>178.8</b>	<b>41</b>	<b>15.4</b>	<b>10.1</b>	<b>52</b>
<b>Technical Services</b>	<b>185.1</b>	<b>199.1</b>	<b>(7)</b>	<b>14.5</b>	<b>16.3</b>	<b>(11)</b>
<b>Unallocated Costs</b>				<b>(4.4)</b>	<b>(3.4)</b>	
<b>Total Continuing Operations</b>	<b>438.0</b>	<b>377.9</b>	<b>16</b>	<b>25.5</b>	<b>23.0</b>	<b>11</b>

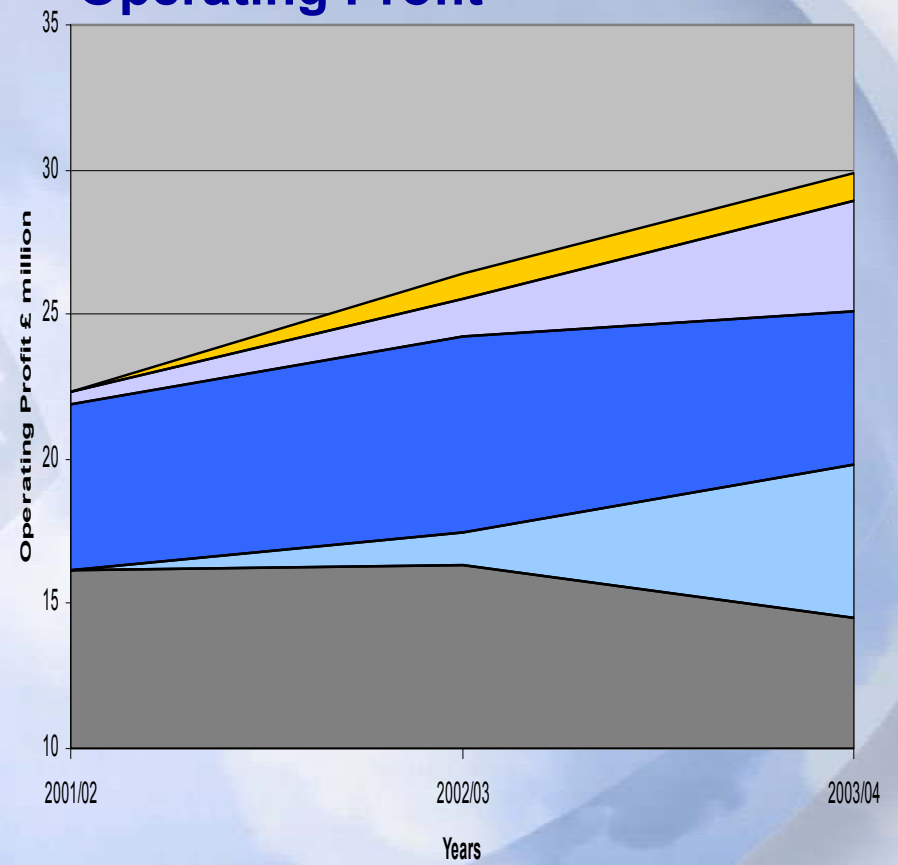
\* Before goodwill and exceptional items

# The Transformation

## Turnover



## Operating Profit



Technical Services
  BNS
  BDS
  Africa
  BIS

Technical Services
  BNS
  BDS
  Africa
  BIS



# Tax, EPS & Dividend

£ Million	2003/04	2002/03	% Change
Profit before tax, pre-goodwill and exceptionals	23.1	18.0	28
Goodwill and exceptionals	(3.3)	(4.6)	
Profit before tax	19.8	13.4	48
Tax	(3.4)	(5.1)	
Profit after tax	16.4	8.3	98
Effective tax rate on continuing operations	15.7%	26.0%	
Basic EPS on Post Tax Profit *	13.60	8.91	53
- Adjusted to reflect 26% tax rate	11.86	8.91	33
Dividend per share (Pence)	3.35	3.00	11.7
Dividend cover based on Profit after Tax *	4.1	3.0	
- Adjusted to reflect 26% tax rate	3.54	3.0	

\* Before goodwill and non-operating exceptionals



# Goodwill and Exceptionals

£ Million	<u>2003/04</u>	<u>2002/03</u>
<b>Operating profit</b>		
• Goodwill	<u>(3.3)</u>	<u>(1.9)</u>
<b>Loss on sale of operations</b>		
• BMH Marine	(2.5)	-
• Sale of non trading subsidiary	0.8	-
• Sale of Chronos Richardson	-	(2.7)
	<u>(1.7)</u>	<u>(2.7)</u>
<b>Exceptional interest</b>		
• Sale of financial asset	<u>1.7</u>	<u>-</u>
<b>Total goodwill and exceptionals</b>	<u>(3.3)</u>	<u>(4.6)</u>

# Taxation

- **Underlying rate 03/04 15.7% (i.e. tax as 15.7% of PBT pre-goodwill and exceptionals)**
- **Benefits from utilisation of prior year losses**
- **Anticipated rate 04/05 24%**
- **Thereafter 26% subject to changes in tax legislation**

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# Group Operating Cash Flow

£ Million	<u>2003/04</u>	<u>2002/03</u>
Group operating profit	21.9	18.9
Amortisation	3.3	1.9
Depreciation	4.9	9.1
Increase in working capital	(2.1)	(18.6)
Capital expenditure – net	(1.6)	(2.7)
Operating cash flow	<u>26.4</u>	<u>8.6</u>

# Group Net Cash Flow

£ Million	2003/04	2002/03
Operating cash flow	26.4	8.6
Acquisitions, disposals & investments		
<ul style="list-style-type: none"> <li>• Acquisitions / joint ventures</li> <li>• Disposals – net</li> <li>• Purchase of own shares</li> </ul>	- 1.1 (0.4)	(24.1) (2.6) (0.9)
	0.7	(27.6)
Movement in share capital	1.7	0.5
Interest	(0.4)	(2.5)
Tax	(1.6)	(3.0)
Dividends	(4.5)	(4.2)
Translation differences/other	(0.5)	(0.6)
Net cash flow	21.8	(28.8)

# Group Balance Sheet

£ million

	<u>2003/04</u>	<u>2002/03</u>
<b>Fixed assets</b>		
• Tangible	12.2	16.5
• Intangible	77.5	78.5
	<u>89.7</u>	<u>95.0</u>
<b>Working capital</b>	(8.7)	(11.7)
<b>Pensions pre-payments</b>	69.0	71.3
<b>Provisions</b>	(29.0)	(27.4)
<b>Financial Items</b>	(4.5)	(2.6)
	<u>116.5</u>	<u>124.6</u>
<b>Financed by</b>		
• Shareholder funds	101.1	87.3
• Minority interest	-	0.1
• Net borrowings	15.4	37.2
	<u>116.5</u>	<u>124.6</u>



# Operations Review

**Peter Rogers**

# Operations Review 2004

## Training & Support - BNS

	Turnover (£m)		Operating Profit (£m) *	
	2003/04	2002/03	2003/04	2002/03
Babcock Naval Services	88	49	5.3	1.2

- First full year of contract
- All KPIs met
- Improved service levels for fleet – customer delighted with cost and delivery
- First significant savings implemented – ahead of contract
- Success in Rolls Royce led consortium for NATO submarine rescue
- Starfish consortium one of two bidders for Future Provision of Marine Services
- Additional work being secured on base contract

\* Before goodwill and exceptional items



# Operations Review 2004

## Training & Support - BIS

	Turnover (£m)		Operating Profit (£m) *	
	2003/04	2002/03	2003/04	2002/03
Babcock Infrastructure Services - BIS	24	17	1.0	0.9

- Fully integrated
- High bid costs on Prime contracts
- SLAM contract slower than hoped – now accelerating
- South West Regional Prime win
- Two year Ealing contract extension on enhanced terms
- Metropolitan Police contract win
- Bidding for three remaining regional Primes

\* Before goodwill and exceptional items

# Operations Review 2004

## Training & Support - BDS

	Turnover (£m)		Operating Profit (£m) *	
	2003/04	2002/03	2003/04	2002/03
Babcock Defence Services	60	64	5.6	6.7

- Turnover and profit falls attributable to British departure from Kosovo
- Success in gaining NATO, UN and US business in Kosovo
- RAF Valley – good start to contract – Hawk position to build on
- On tender list for Armed Forces Resettlement Service (£70 million over 7 years)
- Continue to wait for RSME, AVTS, ASSP – Pulled out of MFTS – before BAe, Serco
- Extension to Bovington under negotiation (2 – 3 years)
- Vanguard plus AT&T selected as one of 3 bidders on core element of DTR

\* Before goodwill and exceptional items and including share of joint ventures

# Operations Review 2004

## Training & Support – BAS

	Turnover (£m)		Operating Profit (£m) *	
	2003/04	2002/03	2003/04	2002/03
Babcock Africa Services	82	50	3.8	1.3

- Growth of 60% in sales, 200% in operating profit
- Volvo franchise has underpinned growth – Volvo Construction Equipment ‘Dealer of the Year’
- Sales growth will slow as Volvo market share reaches natural level – but margins will improve
- Eskom plans reopening of 3 generating plants
- New opportunities in Libya and Mauritius
- Unique base to build defence services business
- World Cup will bring further opportunities

\* Before goodwill and exceptional items

# Operations Review 2004

## Technical Services

	Turnover (£m)		Operating Profit (£m) *	
	2003/04	2002/03	2003/04	2002/03
Technical Services	185	199	14.4	16.1

- Decline in turnover in Rosyth refit and FBM – as expected
- Terminal 5 work has just started – more work to come
- HMS Illustrious on time and to budget
- Design and Technology turnover up 28% profit up 90%
- Further NPPO win – ropes and cordage – business now profitable
- FBM alliance with Lockheed Martin
- SMIT boats and landing craft delivered
- Minor war vessel competitive wins
- CVF programme nomination

*\* Before goodwill and exceptional items and including share of joint ventures*

# Bid Activity

• <b>Sole Bidder</b>			
RSME	No change		
• <b>Bids Submitted</b>			
AVTS	Awaiting decision		
ASSP	Awaiting decision		
NPPO Contract	Won		
Terminal 5 Contracts	Won		
Terminal 5 Second Tranche	Won		
RAF Valley	Won		
RAF Exhibitions	Won		
New Zealand Rebid	Lost		
Navy Mac	Lost		
Marine Services	Bid submitted		
De Beers Ship Design	Won		
		• <b>Others</b>	
		MFTS	Withdrawn
		DTR	Qualified
		South East Prime	Awaiting decision
		CVF	At Top Table
		Hydrographic Office	Preparation
		Central Prime	Under Preparation
		Libya Power	Under negotiation
		Mondi	Awaiting Regulatory Clearance



# Peterhouse Bid

- **Excellent option for Babcock and Peterhouse shareholders**
- **Good managerial fit**
- **Combined balance sheet strong**
- **Scope for substantial synergies**
- **Widens growth opportunities and expertise**
- **Produces well balanced business**



# Summary & Prospects

- Transformation to a Support Services company complete
- Good relationships with MoD
- Order book up by over 60% to £1.0 billion
- Next phase in development started with Peterhouse bid

**BABCOCK IS WELL PLACED TO WIN FURTHER BUSINESS AS PUBLIC SECTOR  
BUDGET ISSUES ARE PROGRESSIVELY RESOLVED**



# Pensions – Balance Sheet Impact - Appendix

£ million	SSAP 24		FRS17	
	2003/04	2002/03	2003/04	2002/03
Total pension fund surplus	85.6	130.8	2.0	2.3
Off-balance sheet surplus	18.4	61.7	0.0	0.0
Balance sheet surplus net– pre-tax *	67.2	69.1	2.0	2.3
Related tax liability	(20.7)	(21.4)	(0.9)	(1.0)
Balance sheet surplus – net	46.5	47.7	1.1	1.3

\* Pension prepayment less pension provisions

# Pensions – Profit & Loss Account Impact

## Defined Benefit Only - Appendix

£ million	SSAP 24		FRS17	
	2003/04	2002/03	2003/04	2002/03
<b>Charged in arriving at operating profit</b>				
• Service cost net of variation	6.8	6.1	9.7	7.0
• Interest on surplus / variation	(4.3)	(6.0)		
<b>Net charge to operating profit</b>	<b>2.5</b>	<b>0.1</b>	<b>9.7</b>	<b>7.0</b>
<b>Credited to other finance income</b>			<b>(2.1)</b>	<b>(15.3)</b>
<b>Net charge/(credit) to profit and loss account</b>	<b>2.5</b>	<b>0.1</b>	<b>7.6</b>	<b>(8.3)</b>