



Interim Results Presentation for the 6 months ended September 2006

Babcock is an asset management business. We manage fixed infrastructure and mobile assets. Babcock integrates labour, technical capabilities, systems and supply chain partners to meet the outsourcing needs of customers for 'mission-critical' capabilities.

Peter Rogers

Bill Tame

Highlights

- **Revenue up by 26% to £487.6 million**
- **Operating profit up by 40% to £33.5 million**
- **Further margin improvement to 6.9%**
- **EPS up by 49% to 11.29p**
- **Further significant contract wins in Networks, Rail and Africa**
- **Alstec and Powerlines acquisitions performing ahead of expectations**
- **Order book now £2.3 billion. Strong bid pipeline**
- **Business environment remains excellent**



Financial Review

babcock

Bill Tame

Results Summary

6 months to 30 September



£ million	2006	2005	% Change	FY 2005/6
Revenue				
- Existing businesses	440.4	386.7	14%	836.7
- Acquisitions	47.2	-	-	-
	487.6	386.7	26%	836.7
EBITDA	36.6	27.5	33%	57.5
Operating Profit				
- Existing businesses	28.4	23.9	19%	49.9
- Acquisitions	5.1	-	-	-
	33.5	23.9	40%	49.9
<i>Margin</i>	6.9%	6.2%	-	6.0%
PBT	30.6	20.5	49%	44.6
Basic EPS (pence)	11.29p	7.56p	49%	17.18p
Dividend	2.40p	1.75p	37%	6.0p

Continuing businesses only
Pre-amortisation and exceptional items

Segmental Analysis - 6 months to 30 September



£ million	Revenue			Operating Profit Return on Sales		
	2006	2005	Growth	2006	2005	Growth
Defence Services	163.7	121.9	34%	13.6	8.9	53%
				8.3%	7.3%	
Technical Services	85.7	65.7	30%	7.3	5.3	38%
				8.5%	8.1%	
Engineering & Plant	80.2	68.3	17%	6.7	4.0	68%
				8.4%	5.9%	
Networks	42.4	36.7	16%	4.8	4.0	20%
				11.3%	10.9%	
Rail	115.6	94.1	23%	4.4	4.2	5%
				3.8%	4.5%	
Unallocated				(3.3)	(2.5)	
Total Continuing	487.6	386.7	26%	33.5	23.9	40%
				6.9%	6.2%	

Pre-amortisation and exceptional items

Summary Group Income Statement

6 months to 30 September

	£ million		% Growth	FY 2005/6
	2006	2005		
Operating Profit*	33.5	23.9	40%	49.9
Joint ventures	0.1	-	-	(0.1)
Net interest	(3.0)	(3.4)	(12%)	(5.2)
Profit before tax*	30.6	20.5	49%	44.6
Tax	(6.7)	(4.9)		(9.2)
<i>Effective tax rate</i>	22%	24%		21%
Profit from continuing operations	23.9	15.6	53%	35.4

* Continuing businesses only

* Pre-amortisation and exceptional items

Intangible amortisation and exceptional items

	£ million	
	2006	2005
Underlying earnings	23.9	15.6
Acquired intangibles amortisation	(2.9)	(1.6)
Exceptional items	(1.3)	-
Related tax credit	1.2	0.5
Sub Total	(3.0)	(1.1)
Trading gain on discontinued operations net of tax	-	0.2
Total	(3.0)	(0.9)
Reported earnings	20.9	14.7

Defined Benefit Pension Schemes

6 months to September 2006



£ million

	2006	2005
Profit and Loss account		
- Service cost	(7.7)	(6.9)
- Financing – net	8.4	5.0
Net profit/loss	0.7	(1.9)
Funded Status/Balance Sheet		
- Schemes in surplus	59.6	63.0
- Schemes in deficit	(8.1)	(53.3)
	51.5	9.7

Cash flow, net debt and gearing

6 months to September 2006



£ million	2006	2005	FY 2005/6
Operating Profit*	29.3	22.6	45.6
Non-cash items	6.8	5.7	12.1
Working capital	(9.0)	(4.5)	(3.6)
Cash generated from operations	27.1	23.8	54.1
Cash conversion	92%	105%	119%
Interest	(2.9)	(3.5)	(5.1)
Tax	(2.7)	(1.4)	(5.8)
Free cash flow	21.5	18.9	43.2
Net Capital expenditure	(3.2)	(4.4)	(8.6)
Acquisitions/disposals	(50.0)	1.1	(1.8)
Dividends	(8.7)	(5.4)	(9.0)
Other	(1.4)	0.4	0.9
Net cash flow	(41.8)	10.6	24.7

	2006	2005
	£m	£m
Net debt	(80.0)	(52.3)
Interest	(3.0)	(3.4)
EBITA/Net interest (x)	11.2	7.0
Net debt/EBITDA(x)	1.1	1.0
Gearing (%)	42	36

* Including discontinued operations



Operational Review

babcock

Peter Rogers

Defence Services

Revenue (£m)		Operating Profit* (£m)	
2006	2005	2006	2005
163.7	121.9	13.6	8.9

- Regional Prime East successfully mobilised
- Additional scope secured on Regional Prime South West
- SLAM 2 close to signature – award is non-competitive
- RSME on track for financial close next year
- DTR decision imminent
- Short-listed to final 2 on Hackney schools (BSF Programme)
- Alstec airports performing well – results included in this division
- Continued margin improvement

Technical Services

Revenue (£m)		Operating Profit* (£m)	
2006	2005	2006	2005
85.7	65.7	7.3	5.3

- Surface Ship Alliance progressing – some volume increase likely
- CVF programme projections continue to increase Rosyth share
- Technical Services at capacity – warship refit about 30% of workload
- Short-listed to last 3 on low level waste repository project (Drigg)
- ISOLUS planning process continues – but slow
- Alstec nuclear and defence businesses performing well – results included in this division

* Before amortisation of acquired intangibles and exceptional items

Engineering & Plant Services

Revenue (£m)		Operating Profit* (£m)	
2006	2005	2006	2005
80.2	68.3	6.7	4.0

- Another outstanding half year for Africa
- Alliance to support new Eskom capacity being formed
- Powerlines acquisition ahead of expectations; £11 million contract win in October
- Construction equipment strong – limited by supply
- Eagleton profitable – strong order book

* Before amortisation of acquired intangibles and exceptional items

Networks

Revenue (£m)		Operating Profit* (£m)	
2006	2005	2006	2005
42.4	36.7	4.8	4.0

- National Grid Alliance won (with Amec and Mott MacDonald) worth ca £250 million over 5 years
- Latest forecasts confirm doubling of National Grid expenditures
- Renewables slow
- Telecoms steady
- Digital Switch Over now providing revenue

* Before amortisation of acquired intangibles and exceptional items

Rail

Revenue (£m)		Operating Profit* (£m)	
2006	2005	2006	2005
115.6	94.1	4.4	4.2

- Good sales growth and strong order book
- Margin below target as anticipated
- Major reorganisation on course – to improve margin
- Two of six signalling contracts won
- In final two bidders for Greater Manchester PTE tramways

* Before amortisation of acquired intangibles and exceptional items

Acquisitions at 30 September 2006

£ million	Alstec	Powerlines	Other	Total
Net cash consideration (after costs)	45.8	5.2	0.5	51.5
<u>To 30 September 2006</u>				
Revenue	42.2	5.0	-	47.2
Operating Profit	4.5	0.6	-	5.1
Period of ownership	5 months	4 months		

- Both performing well with strong sales and growing order books
- Alstec instrumental in short-listing for low level waste repository contract (Drigg)
- Powerlines profitable from day 1 – margin improvement possible

Major opportunities

<u>Bidding opportunity</u>	<u>Babcock value opportunity</u>	<u>Likely award date</u>
RSME	£1,100 million/30 years	Financial Close mid 2007
DTR	£1,300 million/25 years	Preferred bidder - November
Grid Framework	£250 million/5 years	Preferred bidder - December 2006 award
ISP Gibraltar	£50 million/5 years	December 2006
LLW Repository	£80 million/5 years	Short-listed to final 3 - October 2007
Eskom power stations new build	£50-100 million/5 years	April 2007
Hackney Schools (BSF programme)	£200 million/10 years	Short-listed to final 2 – August 2007

Summary and Prospects

- Growth trend in sales and profits continues
- Continuing to win contracts and improve margins
- Order book remains healthy
- Decisions on major contracts imminent
- Robust financial health will facilitate further acquisitions
- Environment for Babcock remains excellent

Appendix – Summary Balance Sheet

£ million



	2006	2005	FY 2005/6
Non current assets			
- Intangibles and Investments	227.4	179.2	178.4
- Property, Plant and Equipment	27.9	36.1	25.3
- Assets held for resale	-	0.4	5.8
Working capital	(27.4)	(23.9)	(27.6)
Pensions surplus	51.5	9.7	29.3
Financial working capital	(8.2)	(5.9)	(2.4)
Capital employed	271.2	195.6	208.8
Shareholders equity	190.2	143.1	170.2
Minority interests	1.0	0.2	0.4
Net Debt	80.0	52.3	38.2
	271.2	195.6	208.8

Interim Results Presentation for the 6 months ended September 2006

Babcock is an asset management business. We manage fixed infrastructure and mobile assets. Babcock integrates labour, technical capabilities, systems and supply chain partners to meet the outsourcing needs of customers for 'mission-critical' capabilities.

Peter Rogers

Bill Tame