Babcock International Group PLC

Interim Results

for the six months ended

30 September 2007

Tuesday 13 November 2007

Creating a leading position

Our strategy is to identify and participate as a leading player in markets with large 'mission critical' assets requiring long-term significant investment programmes for their maintenance and upgrade. *We are currently:*

- The largest facilities management support provider to the MoD
- The largest support provider to the Royal Navy
- The largest track contractor for Network Rail
- One of the largest nuclear engineering resources in the UK
- The largest support services company in South Africa
- One of only three major players in the UK transmission sector

First half highlights

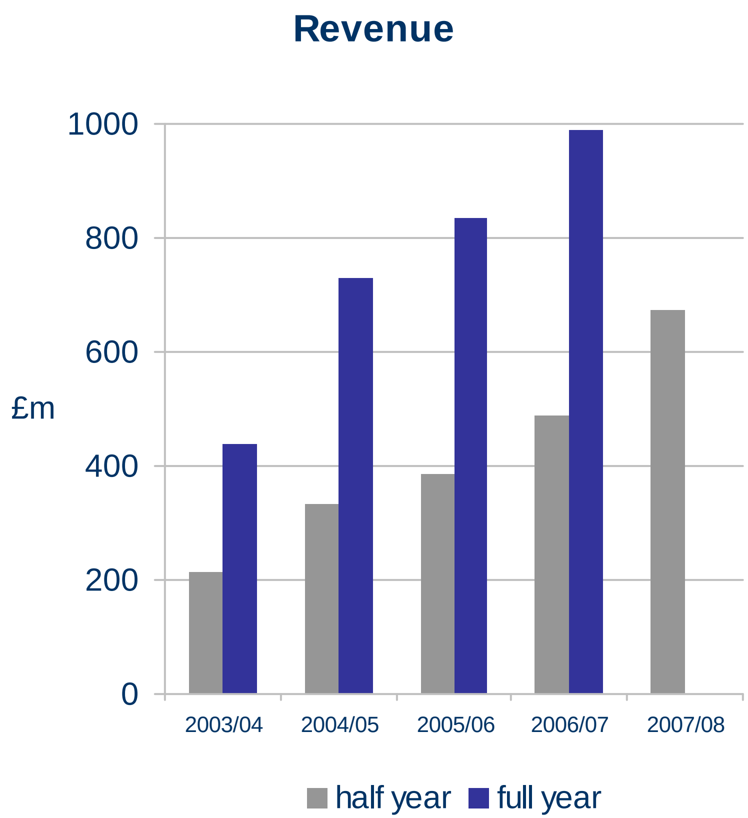
- Revenue up by 38% to £672.6 million
- Underlying operating profit up by 64% to £55.0 million
- Strong growth in operating margin to 8.2%
- Continuing strong organic growth trend
  - + 12% revenue
  - + 14% underlying operating profit
- Underlying EPS increased by 38% to 15.55p
- Interim dividend increased by 38% to 3.3p
- DML performing ahead of planning assumptions
- Bid pipeline remains strong
- Order book £3.3 billion

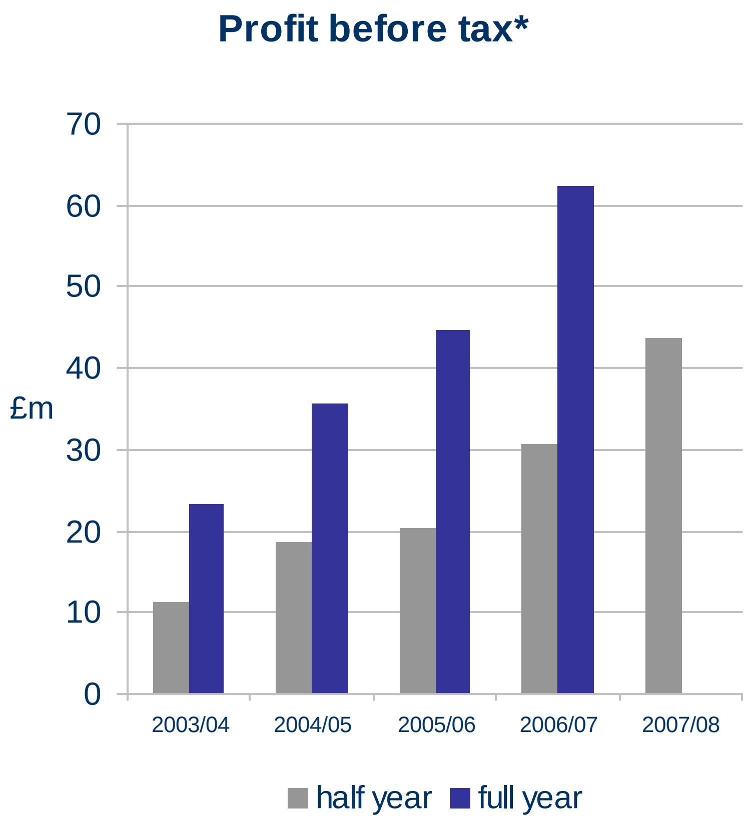
Financial results
for the six months to 30 September 2007

Bill Tame

Group Finance Director

History of strong growth





* Before amortisation of acquired intangibles and exceptional items

Income statement

	H1 2007/08 £m	H1 2006/07 £m	Change	FY 2006/07 £m
Revenue	**672.6**	487.6	+ 38%	988.3
Operating profit*	**55.0**	33.5	+ 64%	68.3
Margin	***8.2%***	*6.9%*	-	*6.9%*
Joint ventures	**0.3**	0.1	-	0.4
Net finance cost	**(11.7)**	(3.0)	-	(6.2)
Profit before tax*	**43.6**	30.6	+ 42%	62.5
Amortisation of acquired intangibles and exceptionals	**(4.4)**	(4.2)	-	(5.5)
Profit before tax	**39.2**	26.4	+ 48%	57.0

* Before amortisation of acquired intangibles and exceptional items

Income statement cont

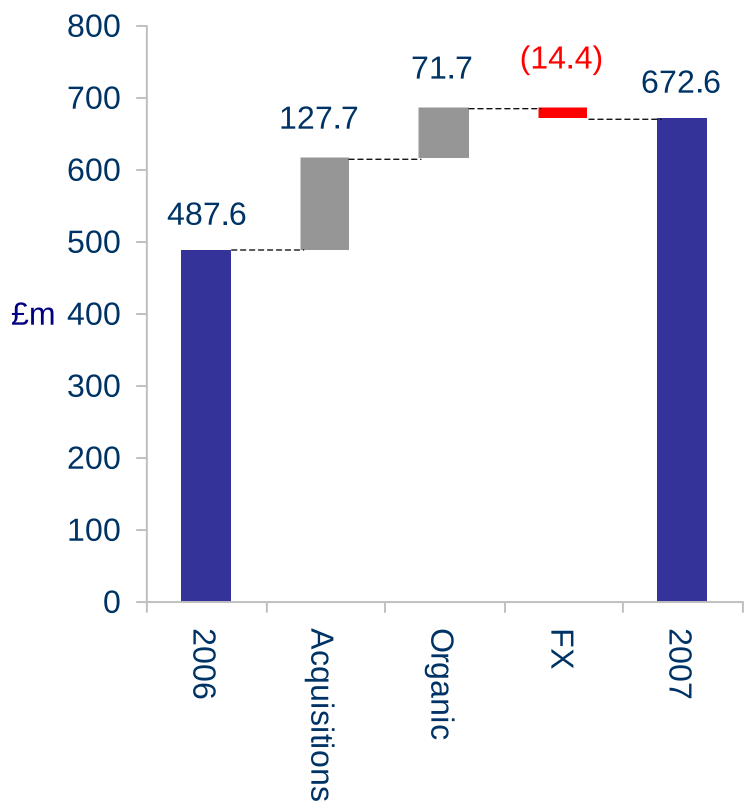
	H1 2007/08 £m	H1 2006/07 £m	Change	FY 2006/07 £m
Profit before tax*	**43.6**	30.6	+ 42%	62.5
Tax	**(7.9)**	(6.7)	+ 22%	(12.6)
*Effective tax rate***	***19%***	*22%*	-	*22%*
Profit after tax*	**35.7**	23.9	+ 49%	49.9
Amortisation of acquired intangibles and exceptionals	**(3.2)**	(3.0)	-	(4.7)
Profit for the period	**32.5**	20.9	+ 56%	45.2
Average shares in issue	**221.4 m**	205.3 m	+ 8%	205.7 m
EPS*	**15.55 p**	11.29 p	+ 38%	23.35 p

* Before amortisation of acquired intangibles and exceptional items

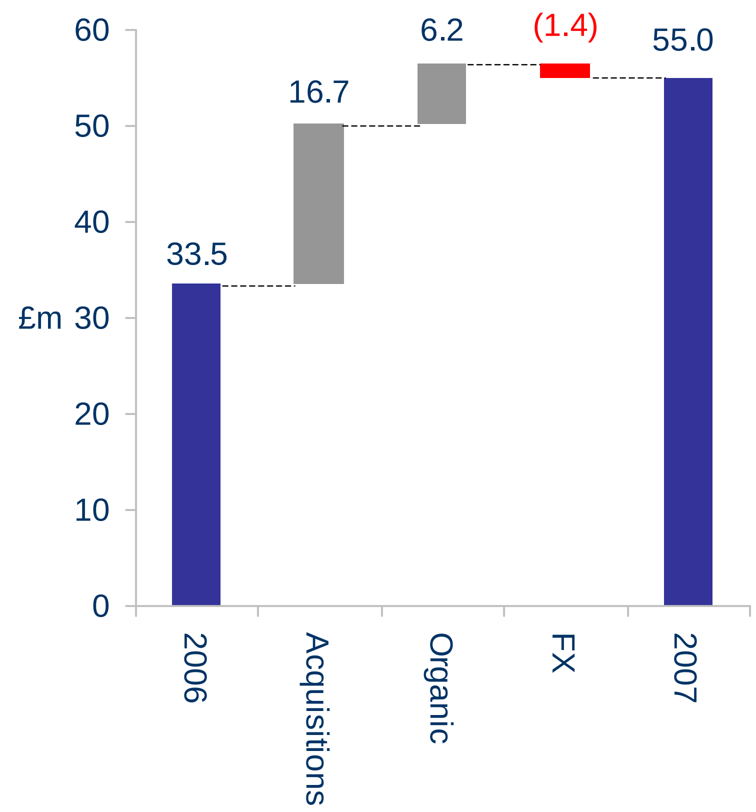
** Tax rate before prior year and non-recurring tax adjustments

Bridging analysis

Revenue



Operating profit*



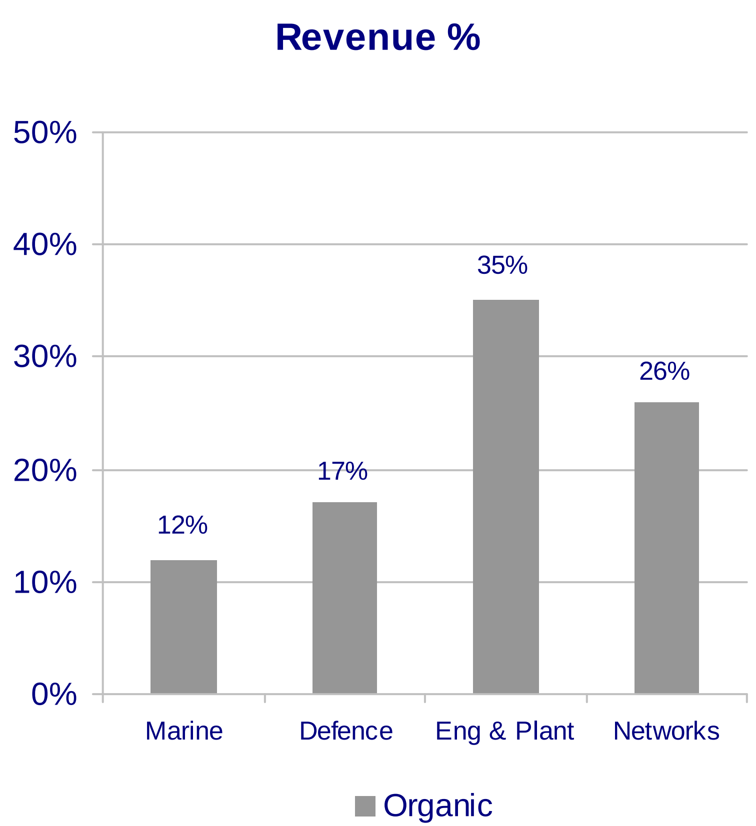
* Before amortisation of acquired intangibles and exceptional items

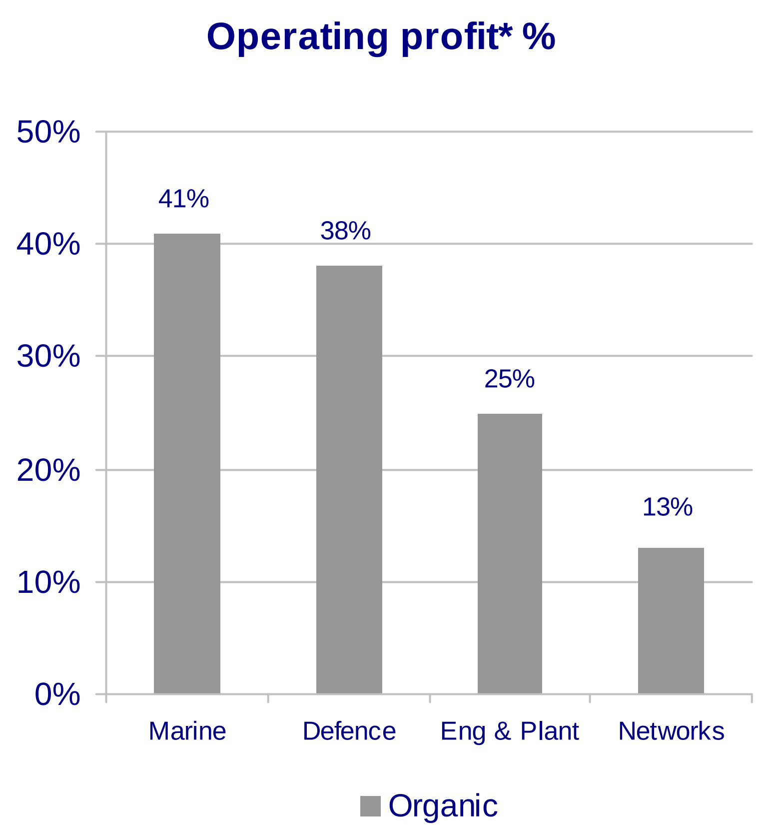
Segmental analysis

	Revenue			Operating profit* *Operating return on revenue*		
	H1 2007/08 £m	H1 2006/07 £m	Change	**H1 2007/08 £m**	H1 2006/07 £m	Change
Marine	**273.0**	131.0	+ 108%	**32.4**	11.1	+ 192 %
				11.9%	*8.5%*	
Defence Services	**138.6**	118.4	+ 17%	**13.5**	9.8	+ 38%
				9.7%	*8.3%*	
Rail	**98.6**	115.6	- 15%	**(2.7)**	4.4	
				- 2.7%	*3.8%*	
Engineering & Plant	**108.0**	80.2	+ 35%	**8.4**	6.7	+ 25%
				7.8%	*8.4%*	
Networks	**54.4**	42.4	+ 28%	**5.4**	4.8	+ 13%
				9.9%	*11.3%*	
Unallocated				**(2.0)**	(3.3)	
Total continuing	**672.6**	487.6	+ 38%	**55.0**	33.5	+ 64%
				8.2%	*6.9%*	

* Before amortisation of acquired intangibles and exceptional items

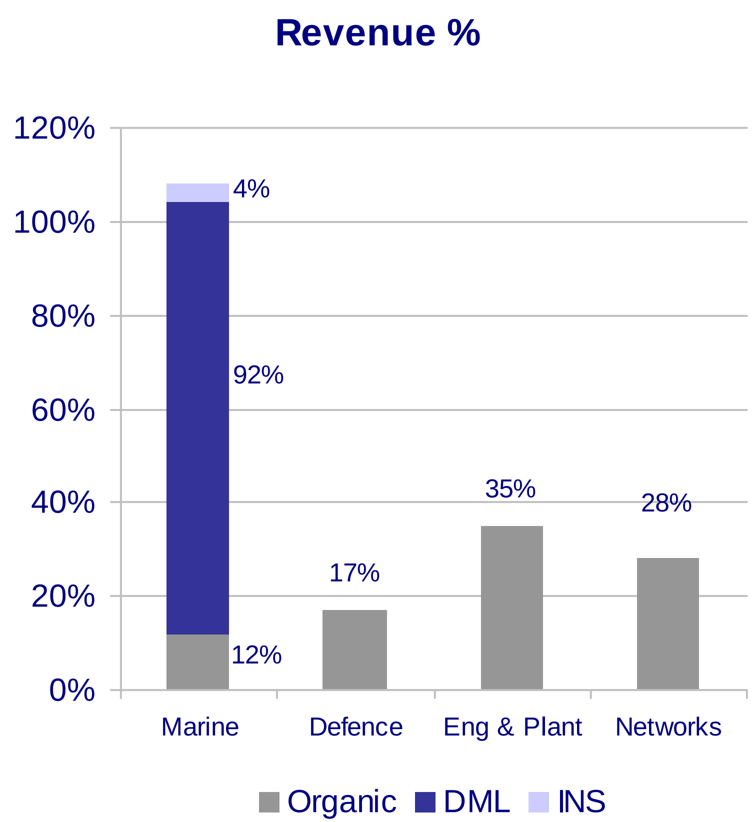
Organic growth – H1 2007/08

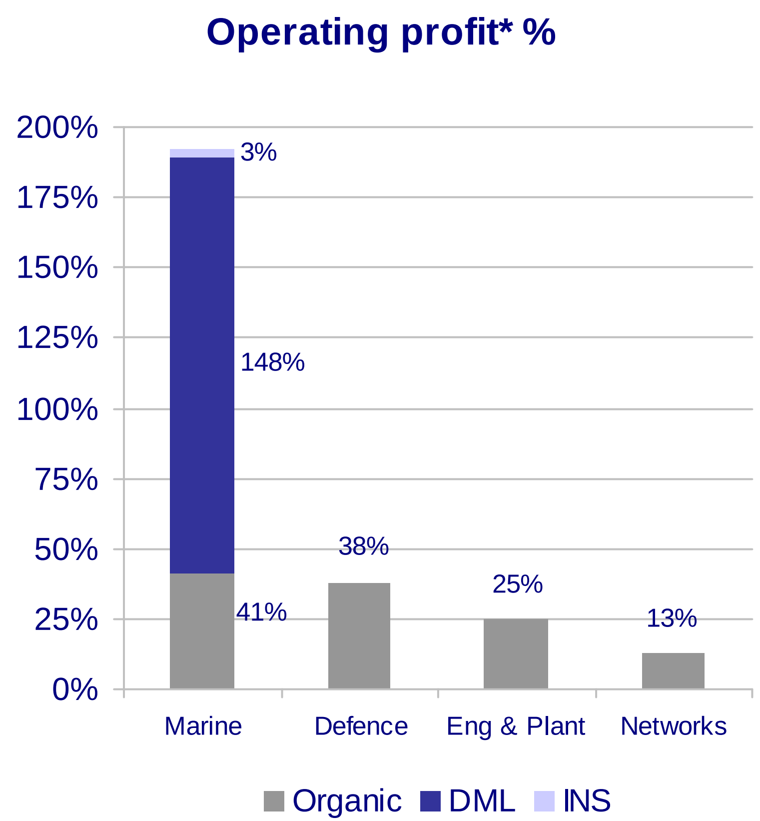




* Before amortisation of acquired intangibles and exceptional items

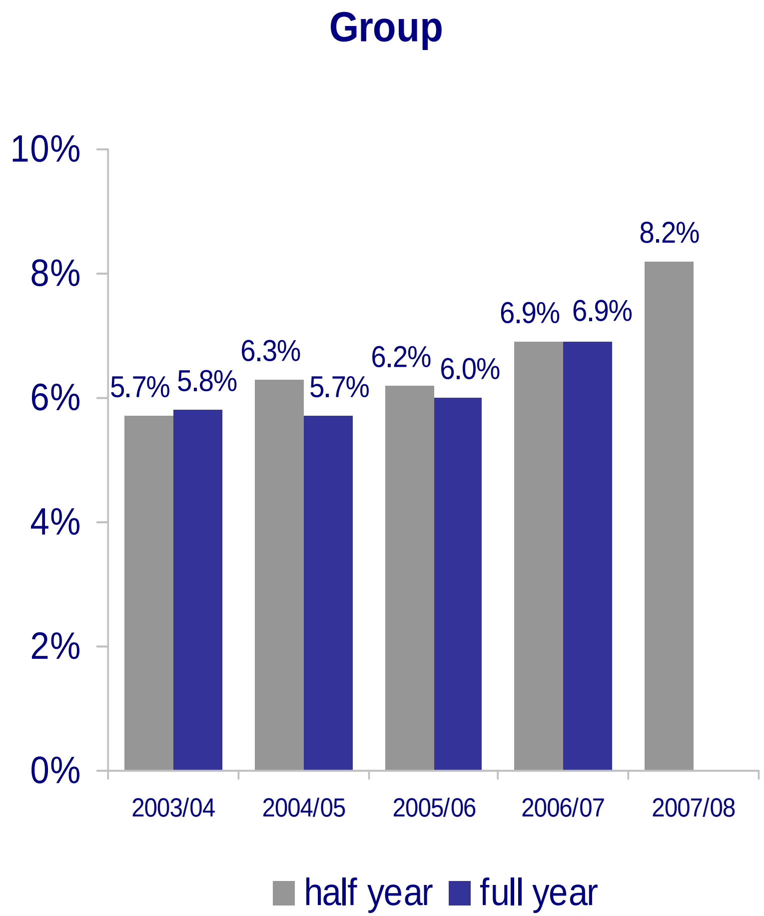
Acquisitive growth – H1 2007/08

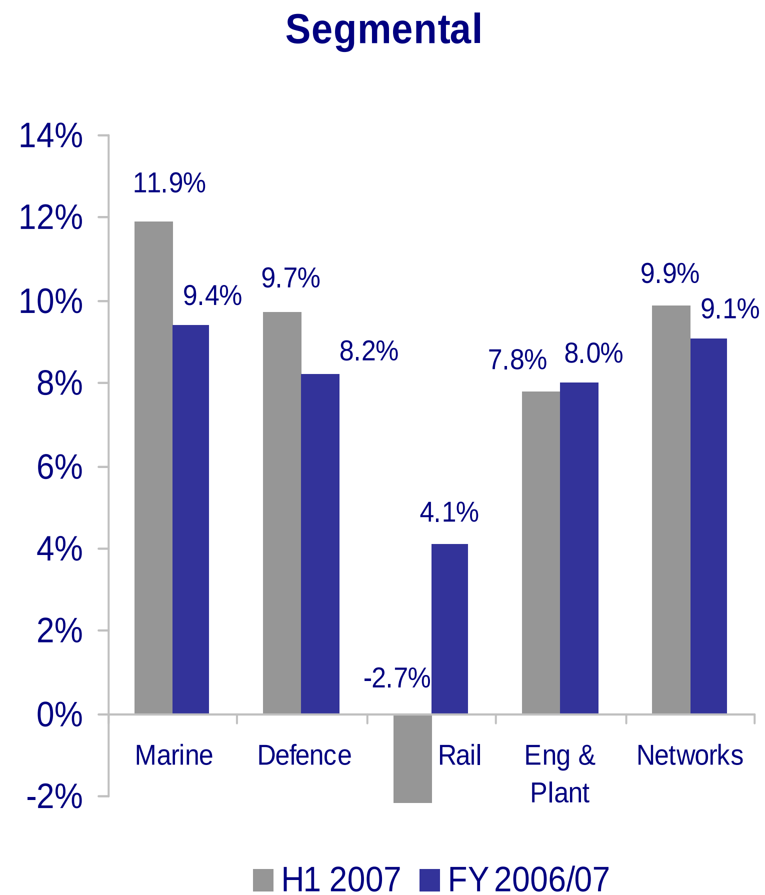




* Before amortisation of acquired intangibles and exceptional items

Operating return on revenue*

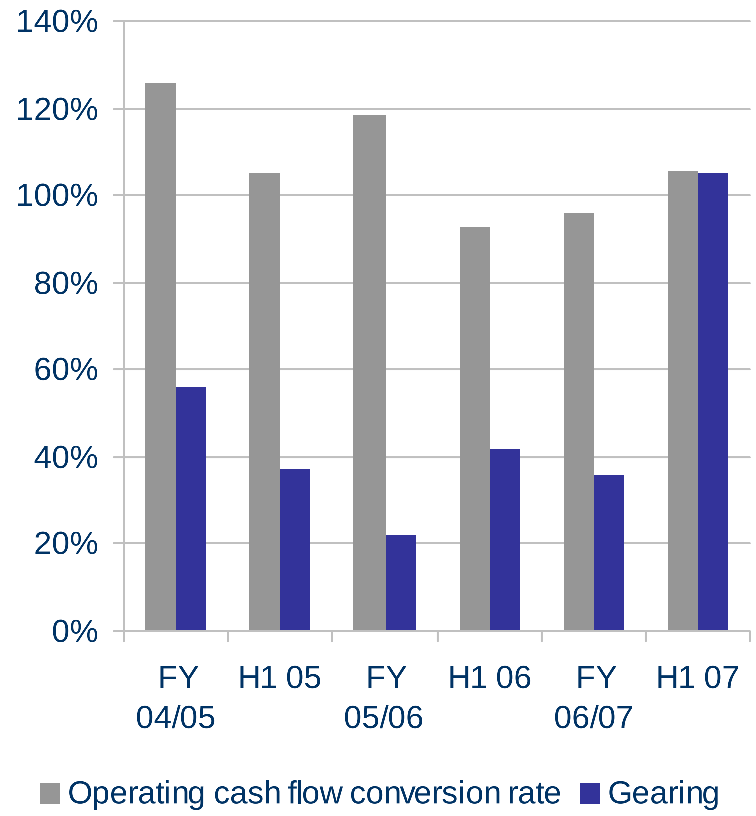




* Before amortisation of acquired intangibles and exceptional items

Strong financial position
high levels of cash generation

- OCF conversion rate 106%
- Gearing ratio 105%
- Interest cover stands at 5.4 x
- Net debt to EBITDA (annualised) ratio at 2.7 x
- Period end net debt £344.6 m



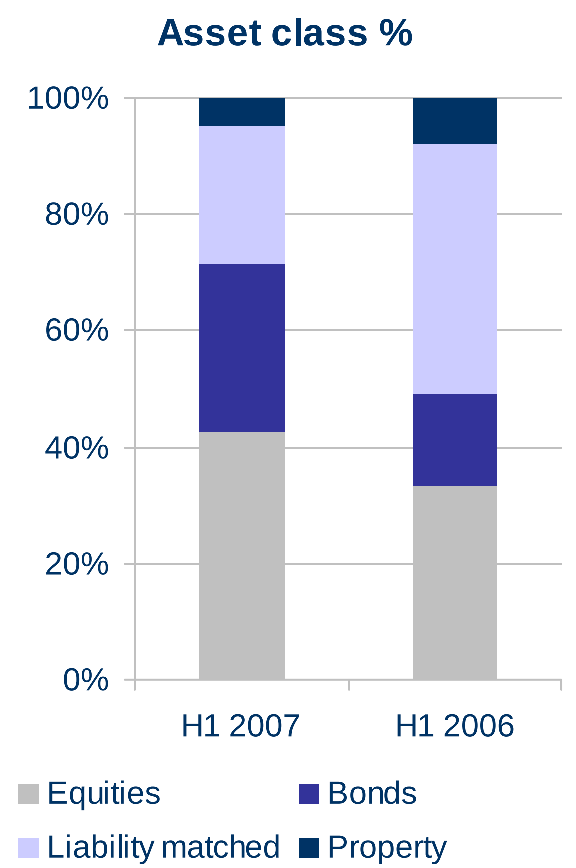
Cash flow, net debt and gearing

	H1 2007/08 £m	H1 2006/07 £m	FY 2006/07 £m
Operating profit	**50.6**	29.3	62.8
Non cash items	**13.1**	6.8	14.7
Working capital	**(10.2)**	(9.0)	(17.3)
Cash from operations	**53.5**	27.1	60.2
Cash conversion	***106%***	*92%*	*96%*
Net capital expenditure	**(3.3)**	(3.2)	(6.3)
Interest	**(7.0)**	(2.9)	(5.5)
Tax	**(5.6)**	(2.7)	(7.7)
Free cash flow	**37.6**	18.3	40.7
Acquisitions/disposals	**(373.2)**	(50.0)	(61.3)
Dividends	**(12.8)**	(8.7)	(13.6)
Other	**77.5**	(1.4)	(1.3)
Net cash flow	**(270.9)**	(41.8)	(35.5)

	H1 2007	H1 2006
Net debt £m	**(344.6)**	(80.0)
Interest £m	**(11.7)**	(3.0)
EBITDA/Net Interest	***5.4 x***	*12.2 x*
Net debt/EBITDA	**2.7 x**	1.1 x
Gearing	**105%**	42%

Defined benefit pensions* - IAS19 position

	H1 2007/08 £m	H1 2006/07 £m
Income statement		
Service cost	**10.7**	7.7
Expected return on assets	**(51.3)**	(34.0)
Interest on obligation	**39.8**	25.6
	(11.5)	(8.4)
Net credit to operating profit before exceptionals	**(0.8)**	(0.7)
Exceptional gains from liability reduction project / curtailment	**(2.4)**	0.0
Net credit to operating profit	**(3.2)**	(0.7)
Balance sheet		
Assets at market value	**2,032.1**	1,131.5
Liabilities	**(1,923.5)**	(1,080.0)
Surplus	**108.6**	51.5
Cash contributions	**10.8**	4.9



*Excludes BNS Defined Benefit Scheme underwritten by the Ministry of Defence

Financial areas of focus going forward

- Maintain cash conversion rate
- Continue pension de-risking
- Ongoing tax planning

- Complete integration of DML
- Return Rail to profitability

Operational Review

Peter Rogers

Chief Executive

Marine

Revenue	***£273.0 million***	***+ 108%***
Operating profit	***£32.4 million***	***+ 192%***

- Restructured to operate on product stream basis
  - better alignment with the customer
- Negotiations for long term agreements underway
- CVF manufacturing contracts to be signed in next 3 months
- Participation in early stages of Trident replacement boats
- Extension to Devonport nuclear facility approved
- Just started second term of Clyde contract
- Nuclear reorganisation/consolidation starting

Defence Services

Revenue	***£138.6 million***	***+ 17%***
Operating profit	***£13.5 million***	***+ 38%***

- All prime contracts performing well
- Scope extension for Bristol/Bath in initial stages – going well
- Margins on Multi Activity high as additional work obtained
- Customer satisfaction levels continue high
- Won £200 million Building Schools for the Future for Hackney
- 2 more BSF bids in pipeline
- RSME rumbles on – financial close May 2008!

Rail

Revenue	***£98.6 million***	***- 15%***
Operating loss	***£2.7 million***	

- A poor quarter in Operations
- Contract margins down and overhead up
- Signalling contracts slow
- Failings identified and being fixed

BUT

- Now largest track renewal contractor (traditional and high output)
- Contracts on signalling frameworks starting to be placed
- Some good project wins
- Return to profit in second half

Engineering and Plant Services

Revenue	***£108.0 million***	***+ 35%***
Operating profit	***£8.4 million***	***+ 25%***

- Infrastructure investment a priority for SA Government
- Orders about to be placed for new power stations
- Local jv with Alstom and Steinmuller formed to provide support for all new-build capacity over 10 years
- Workload on outages at historically high level
- Equipment market remains strong
  - some shortage from Volvo
- Parts and Service business growing rapidly
- Powerlines order book now £11 million

Networks

Revenue	***£54.4 million***	***+ 28%***
Operating profit	***£5.4 million***	***+ 13%***

- Electricity Alliance to deliver 50% of National Grid Capital Plan for power transmission
- Ambitious workload plans – but shortage of qualified and experienced engineers
- Alliance with EDF working well – high customer satisfaction
- Secured first contracts for substantial work in Scotland
- Communications market slow but network sharing will bring higher workload
- Digital Switchover workload at increasing level
- Small acquisition made to gain entry to communications market in Eire

Outlook

- Markets remain good
- Additional contracts coming on stream
- DML and INS progressing well
- Continuing high levels of customer satisfaction
- Rail turn around in second half
- Full year results to meet our expectations

- Bid pipeline remains strong
- Order book underpins long term future