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# Numis Aerospace & Defence Conference

## “The nuclear industry - an opportunity”

Thursday, 5th June 2008

Kevin Thomas
Group Business Development Director
Babcock International Group PLC

# Babcock International Group

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- Babcock is a FTSE 250 support services company
- We operate through six divisions, employing 12,000 people, based extensively in the UK, with overseas operations in southern Africa and North America
- Across our divisions our key strengths are
  - a highly technical engineering skill base
  - a complex project management capability
  - an ability to work in partnership with our customers
  - a thorough understanding of our customers' infrastructure, assets and environment

# Babcock International Group

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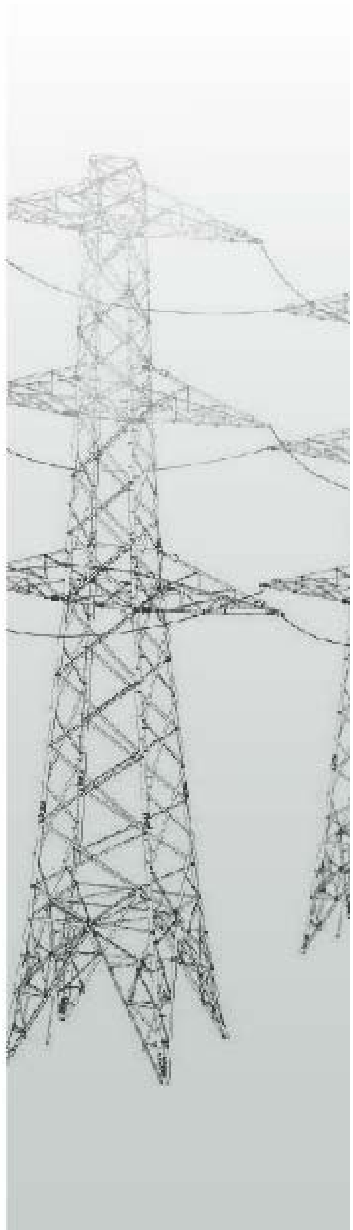
- Our customer base is largely composed of government departments and organisations whose activities are heavily regulated by government, including:
  - Ministry of Defence
  - BNFL
  - National Grid
  - Network Rail
  - Scottish Executive
  - British Energy
  - UKAEA
  - BAA

  Our people build, manage, operate and maintain an extensive range of assets for our customers. In most cases these assets – both fixed and mobile – are vital to our customers’ ability to deliver critical services.

- The assets we manage are valued at **£37Bn** - more than 25 times our market capitalisation



# “The nuclear industry - an opportunity”

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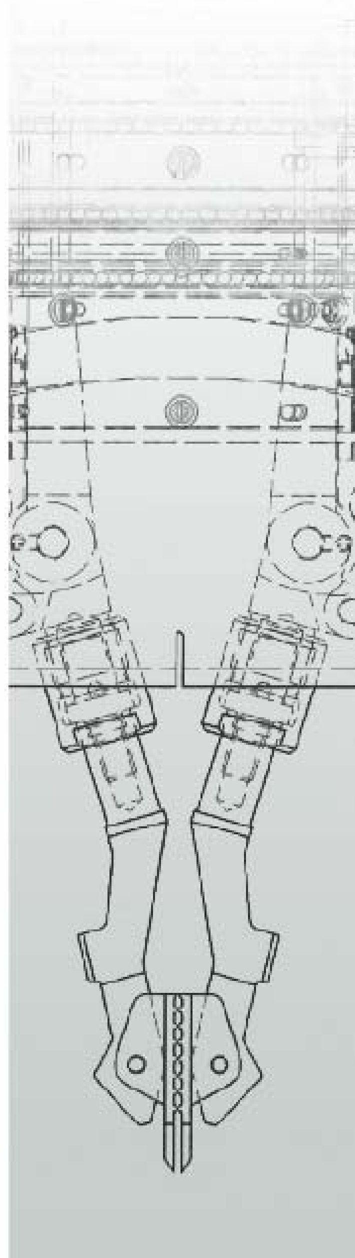

- Why did Babcock see the nuclear industry as a major growth opportunity?
- What is the size and composition of the market?
- How has Babcock positioned itself against its competitors?

# Why did Babcock see the nuclear industry as a major growth opportunity?

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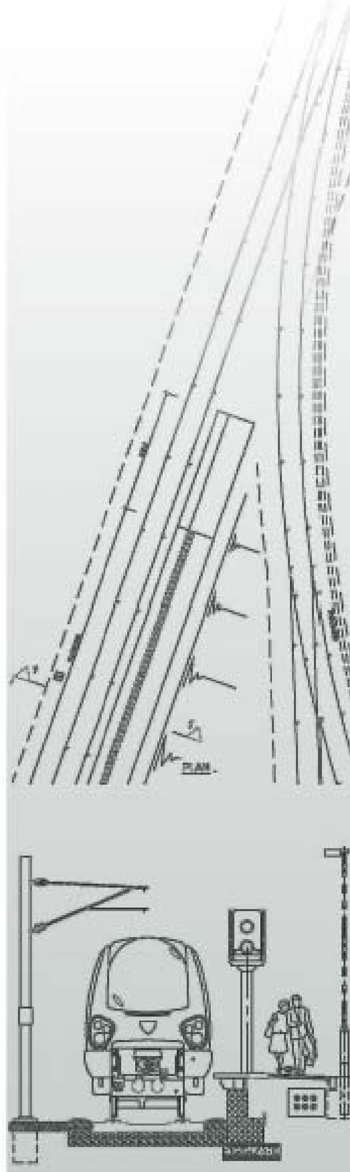

- **Babcock in April 2006**
  - Sales £837M, Operating Profit £50M
  - EPS 17p, Share price £3.14p Market Cap £650M
- **Nuclear capabilities in April 2006**

  Rosyth
  - Submarine refit heritage
  - Ongoing site decommissioning programme

  Faslane
  - Submarine support
- **Why was the nuclear market perceived as attractive?**
  - It played to **all** our strengths, building on our nuclear experience
  - Government customer with long term, funded programme
  - Complex technical engineering tasks
  - Fragmented market with no dominant player
  - Opportunity to create a leading position quickly
  - Platform for long term growth

# BNS Nuclear Services

*The creation of a leading civil nuclear business*

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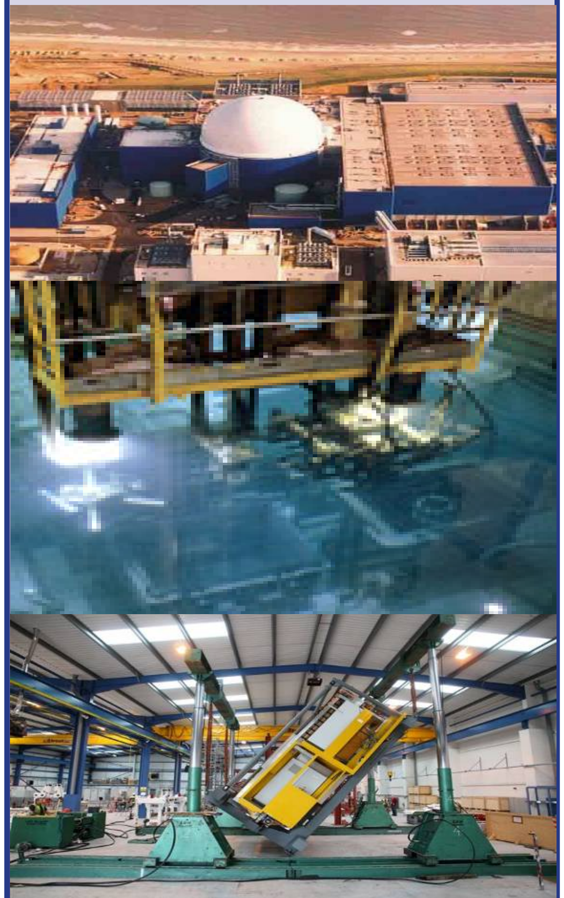
**Acquired**

**2006** ALSTEC **Nuclear Sector**

**2007/8** ins

**2008** WEIR STRACHAN & HENSHAW **Nuclear Sector**

**BNS Nuclear Services**



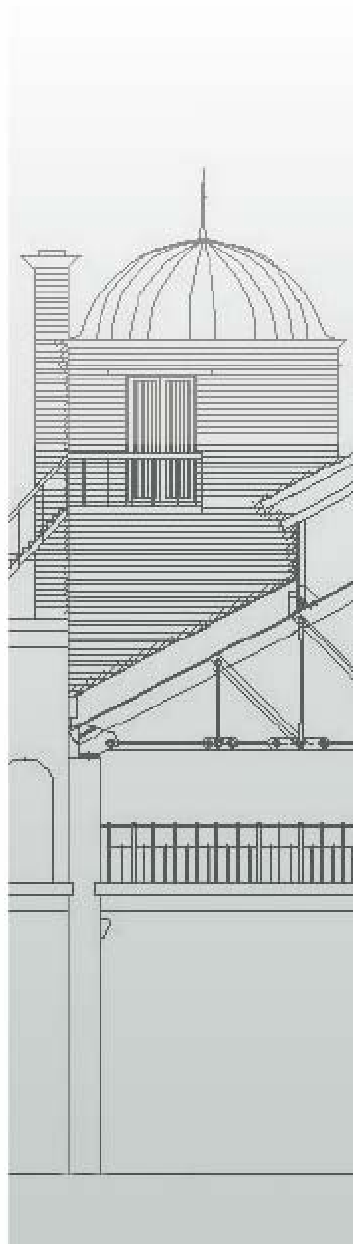
**One of the largest nuclear engineering businesses in the UK**

# Babcock's nuclear resource



- BNS Nuclear Services
  - 1,000 suitably qualified and experienced personnel (SQEP)
  - Operators of 3 nuclear authorised sites
  - 'Reachback' into Babcock Marine's experience and resource pool – 750 SQEP staff

- Babcock Marine
  - Formed in 2007 following acquisition of Devonport Management Limited (DML)
  - Now the leading supplier of support services to the Royal Navy
  - Owners of 2 nuclear licensed sites – Rosyth & Devonport
  - Operator of a further nuclear licensed site at Faslane
  - Also responsible for solid and liquid waste storage at these sites



# What is the size and composition of the market?

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## Key features of marketplace

| Civil Nuclear | Military Nuclear |
| --- | --- |
| New Build | New Build |
| Power Generation | Submarine Support |
| Clean up and Decommissioning | Clean up and Decommissioning |
| Science and Research | Weapons Technology |

# Civil nuclear market

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- **New Build**
  - Government still to determine programme
  - 3 companies going through the UK GDA process
- **Power Generation**
  - British Energy
  - Residual Magnox stations (ends 2010)
- **Clean up and decommissioning**
  - Nuclear Decommissioning Authority
- **Science and research**
  - Fusion (JET, Culham)
  - Rutherford Appleton Laboratory
  - Nexia Solutions

# Military nuclear market

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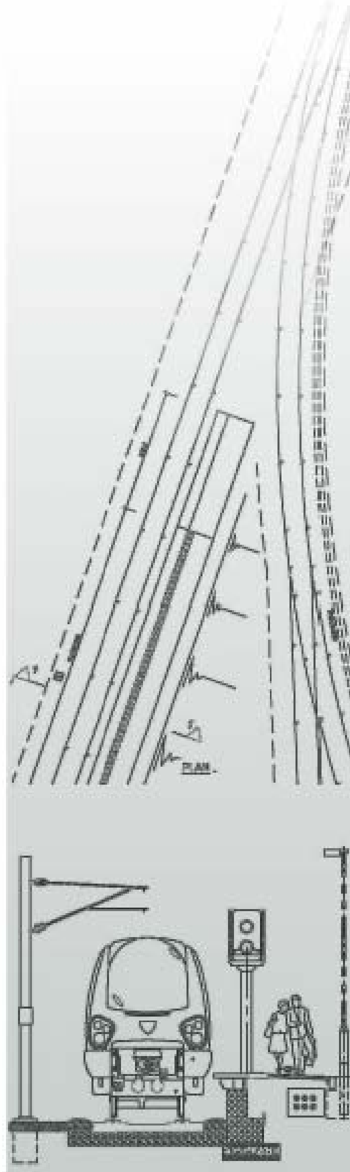
- **New Build**
  - Government still to determine if V class submarines are to be replaced, but deterrent to be retained
- **Submarine support**
  - Royal Devonport Dockyard – refitting, refuelling & defuelling
  - HMNB Clyde - base port for V class submarines
- **Clean up and decommissioning**
  - Licensed site at Rosyth
  - Project ISOLUS, decommissioning submarines
- **Weapons technology**
  - AWE Aldermaston



# Market Size – annual spend



| Civil Nuclear | Military Nuclear |
|---|---|
| New Build<br>None | New Build<br>None |
| Power Generation<br>£3.2Bn | Submarine Support<br>£400m |
| Clean up and Decommissioning<br>£2.7Bn | Clean up and Decommissioning<br>£1M |
| Science and Research<br>£20M | Weapons Technology<br>£600M |

# What is the growth potential of the market?

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| Civil Nuclear | Military Nuclear |
|---|---|
| New Build<br>Big increase if Govt. gives go ahead | New Build<br>Big increase if Govt. gives go ahead |
| Power Generation<br>Growth market | Submarine Support<br>Steady |
| Clean up and Decommissioning<br>Growth Market | Clean up and Decommissioning<br>Growth Market |
| Science and Research<br>Growth Market | Weapons Technology<br>Some potential increase |

# How has Babcock positioned itself against its competitors?

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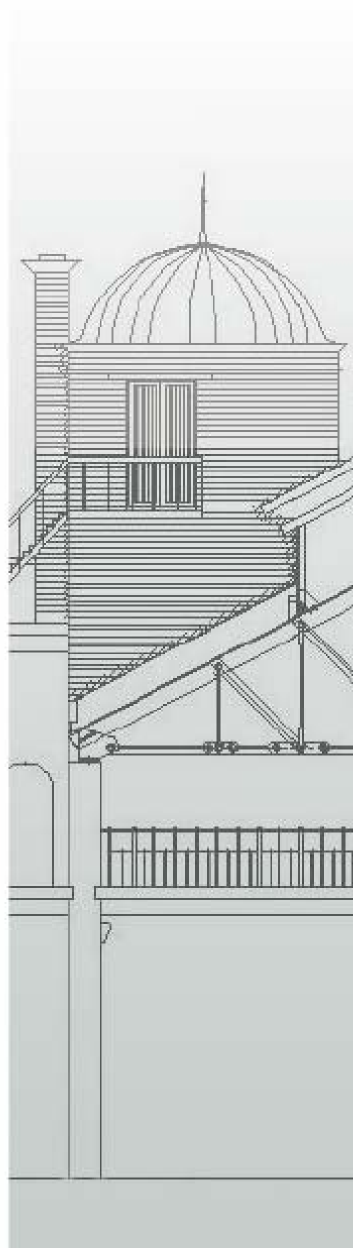
- Civil Engineering constructors
  - Costain, Carillion, Laing O'Rourke, Norwest Holst et al
- Tier 1 players
  - LLWR Drigg - Washington
  - Magnox - Energy Solutions
  - Others: - Bechtel, Serco, Fluor, Jacobs, CH2M Hill, Babcock, AMEC, BWXT et al
- Reactor manufacturers
  - Westinghouse, Areva, GE
- Nuclear Engineers
  - Babcock, AMEC, Nukem, VT Nuclear Services et al



# How has Babcock positioned itself against its competitors?

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**Civil Nuclear Market**
**Decommissioning and engineering**


BNS Nuclear Services

AMEC

Nukem

VT Nuclear Services

# How has Babcock positioned itself against its competitors?

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## Military Nuclear Market

**Submarine Support**
Babcock Marine

**Devonport**

**Faslane**

SECA

**Submarine new build**
BAE Systems

**Barrow**

# Babcock's nuclear heritage and capability

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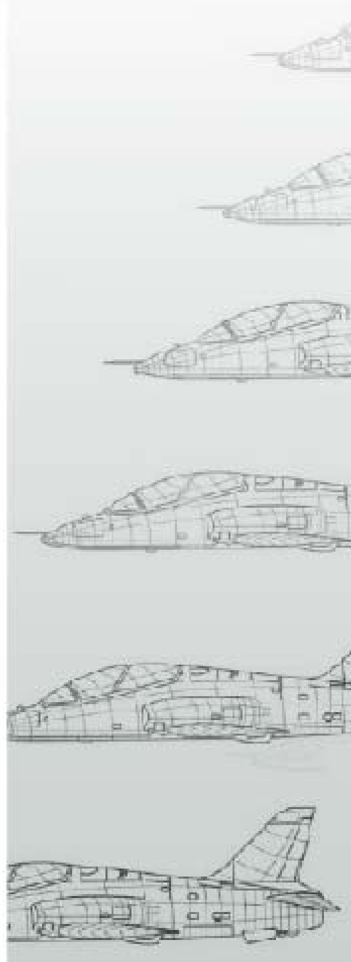
- In BNS Nuclear Services we have one of the leading nuclear engineering businesses in the UK – with a substantial level of SQEP staff – carrying out projects in every stage of the nuclear cycle.
- Babcock has a demonstrable track record in the military nuclear market – fuelling, defuelling, decommissioning and operational support.
- We own or operate 3 nuclear licensed sites
- We have a unique crossover capability between the military and civil nuclear sectors.



# Market Summary

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- Civil nuclear market has limited number of players at Tier 1 and Tier 2 with high barriers to entry and resource constraints
- Military nuclear market largely determined by asset ownership
- New build markets in civil and military sectors have considerable growth potential but await Government go ahead
- Clean up and decommissioning in both sectors still to take off - considerable growth potential in both
- Babcock well positioned, in both civil and military sectors, to win new work in these long term programmes