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Half year results

for six months to 30 September 2010

9 November 2010

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Agenda

• Introduction and highlights	Peter Rogers
• Financial results	Bill Tame
• Operational review	Peter Rogers
• Questions	Peter Rogers Bill Tame Archie Bethel John Davies Kevin Thomas

Introduction and highlights

Peter Rogers
Chief Executive

First half highlights

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- Continued strong progress
  - benefitting from VT acquisition and good ongoing performance from existing businesses
- Underlying operating margin of 9.3%
- Excellent cash generation and financial position
- Strong order book and bid pipeline
  - underpinned by contract extensions and scope expansions
- VT integration progressing well
- Maintaining track record of delivering shareholder value
- Interim dividend increased by 8% to 5.2 pence

- Well positioned for the future

Implications of CSR and SDSR

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- Outcome of the reviews removed uncertainty
  - confirmed build of two QE class aircraft carriers
  - Successor future deterrent submarine programme delayed
    - £1.3 billion estimated for 5 year life extension to V class boats
  - future reduction in Navy fleet size manageable
- Cancellation of DTR 1 creates opportunities
- £250 million pa additional funding for adult apprenticeships
- Focus on delivery and removing inefficiencies from public bodies

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Financial results

for the six months to 30 September 2010

Bill Tame
Group Finance Director

Income statement*

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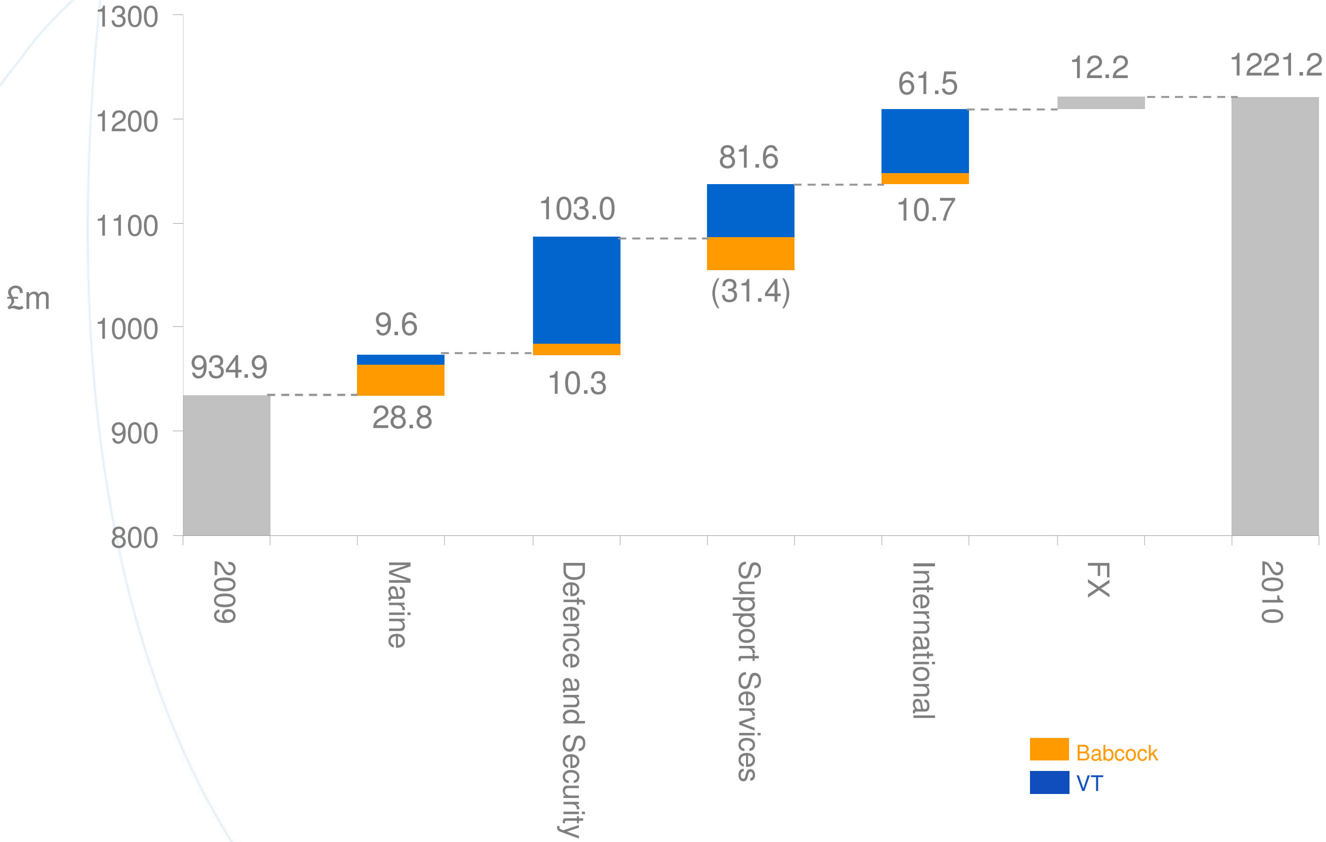
Pro forma FY 2010 £m		**H1 2010/11 £m**	H1 2009/10 £m	Change
3174.9	Revenue	**1,221.2**	934.9	+ 31%
281.7	Underlying operating profit	**113.7**	82.4	+ 38%
8.9%	*Operating margin*	***9.3%***	*8.8%*	
	Net finance cost	**(22.8)**	(10.6)	
	Underlying profit before tax	**90.9**	71.8	+ 27%
	Tax *Effective rate*	**(18.6)** ***20.5%***	(13.7) *19.0%*	
	Underlying profit after tax	72.3	58.1	+ 24%
	Underlying eps	24.56p	24.97p	

Weighted average number of shares in issue

- 2010/11 326.7 million
- 2011/12 359.3 million

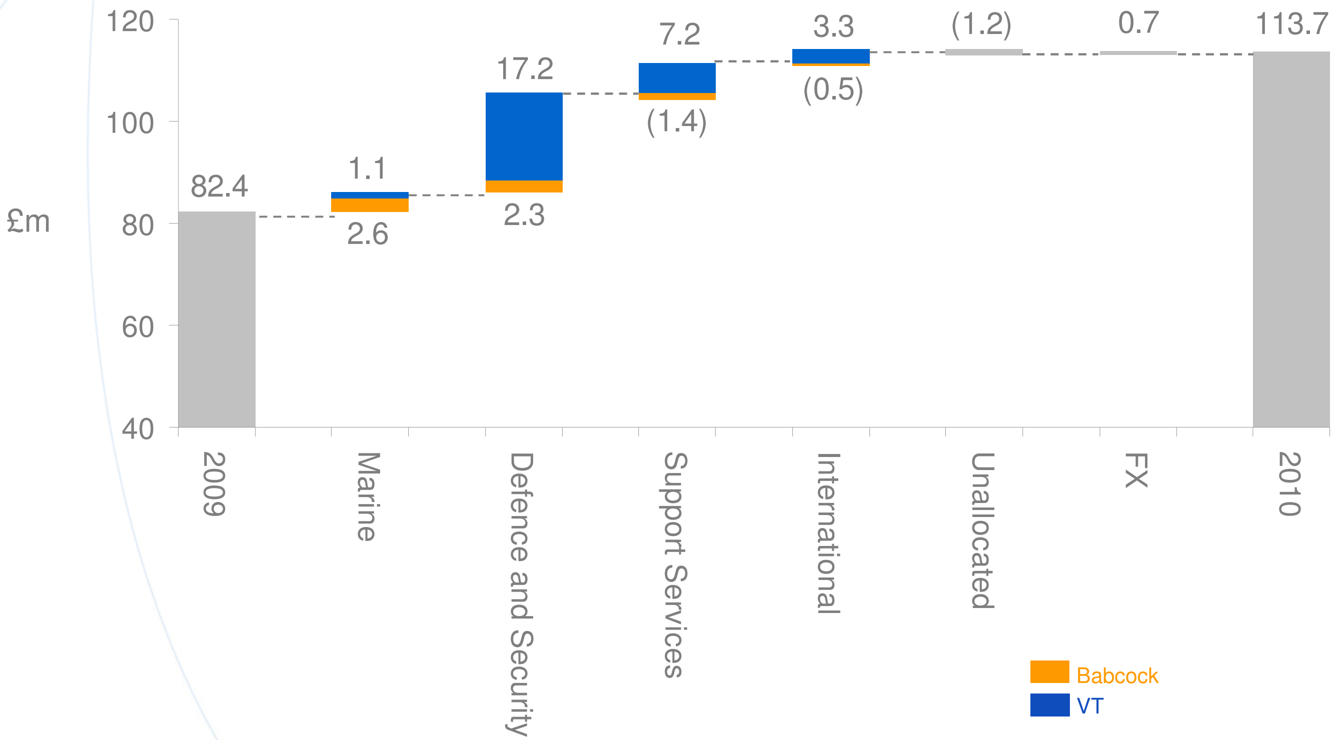
* Underlying – see Appendix (ii)

Bridging analysis
Revenue*



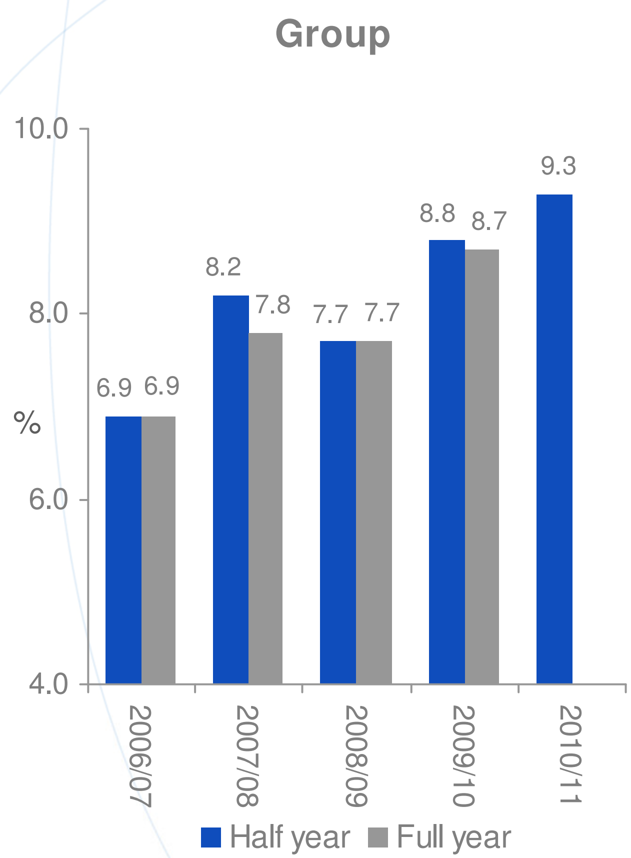
* Underlying – see Appendix (ii)

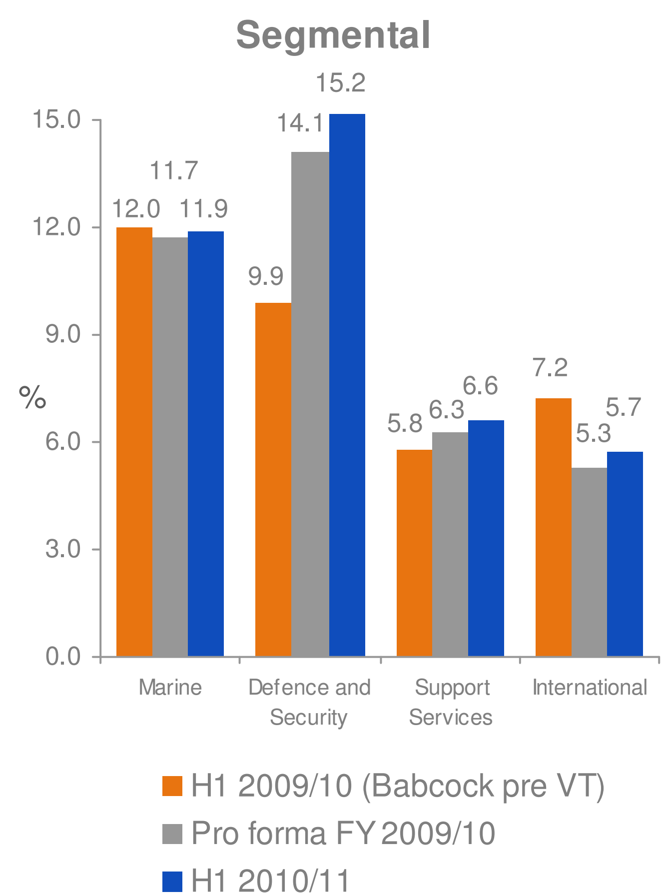
Bridging analysis
Operating profit*



* Underlying – see Appendix (ii)

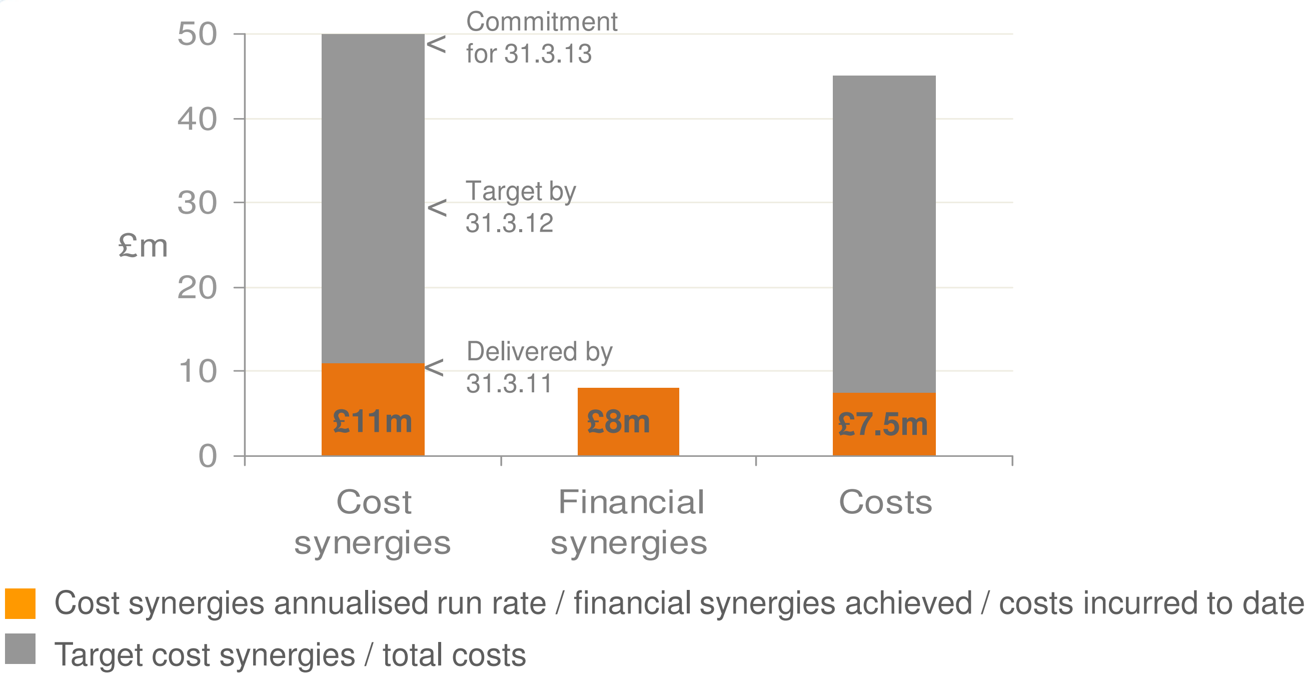
Operating return on revenue*





* Underlying – see Appendix (ii)

Acquisition of VT
Synergies and costs



- Confident of achieving cost synergies of £11 million (annual run rate) by end 2010/11
- Synergy programmes for IT, procurement, insurance and property well established and delivering
- Financial synergies fully achieved

Cash flow

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	H1 20010/11 £m	H1 2009/10 £m	FY 2009/10 £m
Operating profit	**75.7**	76.0	148.1
Non-cash items/exceptionals	**29.3**	19.4	43.5
Working capital	**38.3**	(9.0)	(21.3)
Cash from operations	**143.3**	**86.4**	**170.3**
Cash conversion	***189%***	*114%*	*115%*
Net capital expenditure*	**(10.1)**	(10.2)	(23.7)
Interest	**(16.3)**	(10.5)	(18.5)
Tax	**(5.6)**	(0.6)	(1.7)
Free cash flow	**111.3**	**65.1**	**126.4**
Acquisitions/disposals**	**(575.5)**	-	(37.9)
Dividends	**(29.4)**	(23.8)	(34.7)
Other	**(0.2)**	(3.7)	(4.6)
Net cash flow	**(493.8)**	**37.6**	**49.2**

* including finance leases

** including cash and loans acquired

Funding
Secure financial position

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- Deleveraging rapidly
  - net debt £796.1 million
  - significantly better than planning assumptions
  - some accelerated receipts in H1, benefit will reverse in H2
- Pro forma net debt to ebitda (annualised) ratio 2.8 x
- Interest cover 5.6 x
- Refinancing strategy in place for delivery before the end of March 2011
  - revolving credit facility £600 million
  - bridging facility £400 million

Defined benefit pensions
Triennial valuations

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	Devonport	BIG	Rosyth	VT SIPS	Others
Last valuation date	31 March 2008	31 March 2007	31 March 2009	31 March 2007	Various
Next valuation date	31 March 2011	31 March 2010	31 March 2012	31 March 2010	Various
Surplus/(deficit) £m	(43.0)	14.0	(37.0)	(28.0)	(44.0)
Level of funding %	95%	103%	90%	91%	90%
Annual cash contribution from					
• formal valuation £m	27.0	6.4	12.2	4.8	5.6
• longevity swap funding £m	4.8		2.5		
• prepayment £m	(15.0)		(0.7)		
Total annual cash contribution £m	16.8	6.4	14.0	4.8	5.6

- Cash contributions stable – Babcock and VT SIPS changing for 2011/12
- Majority of contributions recovered from contract charges
- Longevity swap funding fixed for 20 years
- Total annual contributions £63.3 million (£47.6 million after prior year prepayments)

Defined benefit pensions
Pension strategy

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- Pensions legislation landscape beneficial
  - CPI replacing RPI
  - Annual and Lifetime Allowance changes
  - Government moves to 'dilute' public sector pensions

- Scheme mergers to continue
  - VT SIPS to merge in to BIG scheme
  - integration to be complete by 30 June 2011

Defined benefit pensions – IAS19

Income statement

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- Charge increasing due to VT schemes £1.7 million and fall in discount rate to 5% from 5.5%
- Proactive management of investments and benefits will stabilise charge over time
- Until then, IAS19 charge will remain sensitive to small changes in assumptions

Income statement	Projected 2010/11 £m	H1 2010/11 £m	FY 2009/10 £m
Service cost	(46.0)	**(21.2)**	(23.3)
Expected return on assets	152.7	**72.2**	113.1
Interest on obligations	(135.7)	**(64.6)**	(107.2)
Net charge to operating profit	(29.0)	**(13.6)**	(17.4)

Sensitivities*	Inflation		
Discount rate	**2.5%**	**2.8%**	**3.1%**
4.65%	(19.4)	(25.1)	(30.8)
4.95%	(18.2)	**(23.9)**	(29.6)
5.25%	(17.0)	(22.5)	(28.4)

* projected and notional net charge for a 12 month period

Defined benefit pensions – IAS19 position
Balance sheet

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- Liabilities increased due to VT schemes net deficit £54 million and lower discount rate
- Some offset due to CPI change
- Highly sensitive to changes in financial conditions

Balance sheet	30 Sept 2010	31 Mar 2010	30 Sept 2009
Assets at market value	2,471.6	1,979.8	1,854.9
Liabilities	(2,828.0)	(2,303.8)	(2,142.2)
Surplus/ (deficit)	**(356.4)**	**(324.0)**	**(287.3)**

Sensitivities*		**Inflation**	
Discount rate	**2.5%**	**2.8%**	**3.1%**
4.65%	(406.6)	(484.9)	(563.2)
4.95%	(278.2)	(356.4)	(434.8)
5.25%	(149.8)	(228.1)	(306.4)

Financial summary

- Revenue growing
- Operating margins increasing
- Deleveraging rapidly
- Synergies well on track
- Managing pension liabilities
- Half year dividend increased by 8% to 5.2p

Operational review

Peter Rogers
Chief Executive

Marine

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	Group	Joint ventures	Total
Revenue	£502.4m	-	£502.4m
Operating profit	£59.6m	-	£59.6m
Operating margin	11.9%	-	11.9%

- Continued strong performance across all business streams
- SDSR removed uncertainties relating to future business
- Commitment to complete two aircraft carriers
- Fleet reductions could have some limited impact on refit revenues
  - balanced by opportunity of refit prior to sale
- Both Devonport and Clyde naval bases will be retained
  - ToBA commitment to drive further efficiencies at both sites

Marine cont

- Submarine programme unaffected by SDSR
  - commitment to build 7 Astute class submarines
  - Babcock owned or managed infrastructures critical to ongoing support for submarine flotilla
- Future deterrent programme delayed
  - growing role as part of Successor design team as move to detailed design phase
  - currently working on life extension planning
  - 5 year life extensions required for 3 V class boats
  - MoD estimated cost £1.3 billion
- International presence continues to develop
- Markets remain robust in UK and overseas
  - strength of reputation and expertise provide growth opportunities in both UK and overseas
  - in addition, significant opportunities to come from SDSR

Defence and Security

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	Group	Joint ventures	Total
Revenue	**£130.1m**	£24.8m	**£154.9m**
Operating profit	**£18.1m**	£5.5m	**£23.6m**
Operating margin	**13.9%**	22.2%	**15.2%**

- Market conditions little changed
  - MoD focused on front line operations
  - financial and operational efficiencies critical
- No adverse impact from SDSR
  - awaiting detail but have already identified opportunities to assist in driving efficiencies
  - combined capabilities of Babcock and VT and track record of working with all three armed forces places division in strong position from which to benefit
- Delivering high standards of training for Army, Navy and RAF
  - cancellation of DTR 1 creates opportunities where we can build on existing contracts to deliver significant long-term efficiencies for our customer

Defence and Security cont

- FSTA and MFTS both performing in line with expectations
  - FSTA commitment for fleet of 14 aircraft
  - Phase 1 roles to provide services during construction and mobilisation nearing completion
  - moving to operational phases in 2011/12 financial year
- Airfield and operational support performing in line with financial expectations and operational KPIs
- Rebids progressing well
  - possibility of extensions following SDSR as alternative solutions now considered
- Integration well advanced
  - creating opportunities to deliver more for our customer
- Outlook for the division remains healthy

Support Services

	Group	Joint ventures	Total
Revenue	£377.3m	£14.4m	£391.7m
Operating profit	£24.5m	£1.2m	£25.7m
Operating margin	6.5%	8.3%	6.6%

- Markets conditions stable resulting in contract extensions and scope expansions
- CSR outcome positive
- Current Regional Prime contracts unaffected by SDSR
- Civil nuclear decommissioning market remains subdued
- Demand for operational support on current nuclear power stations ongoing
- Vehicle fleet management contracts delivering significant savings and improved availability

Support Services cont

- Delivering exceptional achievement standards within Education and Training business
  - our technical apprentice training business achieved OFSTED Grade 1 ratings - levels achieved by very few other private training providers
  - proven track record in critical area of education improvement
- Waste is not strategic growth opportunity for Babcock
  - exit options being reviewed
- Significant long-term growth opportunities for the division
  - both in UK and overseas

International

	Group	Joint ventures	Total
Revenue	£172.2m	-	£172.2m
Operating profit	£9.8m	-	£9.8m
Operating margin	5.7%	-	5.7%

- South African economy steadily improving
  - increasing demand for Volvo equipment
  - power generation support and Powerlines markets steady
  - opportunities from support contracts for new power stations
- US operations performing as anticipated
  - increasing focus on higher margin logistics and readiness and communications support markets
  - acquisition of Evergreen Unmanned Systems represents first move into fast growing UAS market
- Middle East making progress on a number of opportunities

Order book and bid pipeline

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- Order book stable at £12 billion
  - underpinned by contract extensions and scope expansions
  - ongoing, steady flow of contracts from bid pipeline into order book
- Excellent long term visibility and security
  - majority of this year's revenue already contracted and high proportion for 2011/12
- Bid pipeline healthy
  - opportunities at PQQ and ITT stage over £5 billion
  - 39 bids greater than £25 million being pursued
  - some slow-down in public sector contracts coming to tender

Outlook

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- We remain confident in the prospects for the Group
- Markets remain attractive
  - significant long-term growth opportunities
  - additional outsourcing opportunities expected following CSR and SDSR
  - scale of enlarged Group's operations, our expertise and track record place us in a strong position from which to benefit
- Earnings to benefit from synergy savings and improving margins in Support Services and International
  - revenue growth dependent on outsourcing decisions
- Order book, bid pipeline, our involvement in long-term programmes and proven ability to deliver efficiencies support our confidence in the outlook

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Appendix

Segmental analysis – Appendix i

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	Revenue			Operating profit			Margin		
	H1 2010/11 £m	Pro forma FY 2009/10 £m	H1 2009/10 £m	**H1 2010/11 £m**	Pro forma FY 2009/10 £m	H1 2009/10 £m	**H1 2010/11 %**	Pro forma FY 2009/10 %	H1 2009/10 %
Marine	**502.4**	1,014.6	464.0	**59.6**	119.1	55.9	**11.9**	11.7	12.0
Defence and Security									
group	**130.1**	505.8	36.4	**18.1**	68.3	3.7	**13.9**	13.5	10.2
Jv	**24.8**	109.8	5.2	**5.5**	18.3	0.4	**22.2**	16.7	7.7
total	**154.9**	615.6	41.6	**23.6**	86.6	4.1	**15.2**	14.1	9.9
Support Services									
group	**377.3**	1,004.7	334.8	**24.5**	65.4	19.6	**6.5**	6.5	5.9
jv	**14.4**	40.7	6.7	**1.2**	0.5	0.3	**8.3**	1.2	4.5
Total	**391.7**	1,045.4	341.5	**25.7**	65.9	19.9	**6.6**	6.3	5.8
International *	**172.2**	499.3	87.8	**9.8**	26.6	6.3	**5.7**	5.3	7.2
Unallocated	**-**	-	-	**(5.0)**	(16.5)	(3.8)	**-**	-	-
Total									
group	**1,182.0**	3,024.4	923.0	**107.0**	262.9	81.8	**9.1**	8.7	8.9
jv	**39.2**	150.5	11.9	**6.7**	18.8	0.6	**17.1**	12.5	5.9
total	**1,221.2**	3,174.9	934.9	**113.7**	281.7	82.4	**9.3**	8.9	8.8

* International 2009/10 operating profit represents 6.4 group less 0.1 jv loss

Income statement – Appendix ii
Statutory to underlying reconciliation

	Statutory £m	Revenue from jV £m	Operating profit £m	Interest cost £m	Tax £m	IFRIC 12 income £m	Amort-isation £m	Exceptional Items £m	Underlying £m
Revenue	1,182.0	39.2							1,221.2
Operating Profit	58.7		2.6			4.8	30.6	17.0	113.7
Share of profit from jv	0.0		(2.6)	4.5	0.1	(4.1)	1.0	1.3	0.0
Investment income	0.7					(0.7)			0.0
Net finance costs	(18.3)			(4.5)					(22.8)
Profit before tax	41.1	-	-	-	(0.1)	-	31.6	18.3	90.9
Tax	(6.5)				(0.6)		(8.8)	(2.7)	(18.6)
Profit After Tax	34.6	-	-	-	(0.7)	-	22.8	15.6	72.3

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