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A large, stylized Babcock logo is centered on a background of overlapping red and orange curved shapes. The logo itself is a dark blue teardrop shape with the word "babcock" in white lowercase letters.

Recommended acquisition of VT Group plc

23 March 2010

Information Notice



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Agenda



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- Overview Peter Rogers
- Strategic rationale Peter Rogers
- Key financials Franco Martinelli
- Summary Peter Rogers



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Overview

Peter Rogers - Chief Executive Officer



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Acquisition overview

- Proposed acquisition of VT Group plc for £1,326m
 - 734.9p per share comprising 361.6p cash and 0.701 Babcock shares
- Clear and compelling strategic rationale
 - creates one of *the largest and most focused engineering support services companies in the UK*
- Clear and compelling financial rationale
 - anticipated merger benefits of c.£50m p.a. and financial efficiencies of c.£8m p.a.
 - earnings enhancing in first full year*
- Creates a combined Group with
 - strong balance sheet and highly cash generative operations
 - order book of c.£10bn

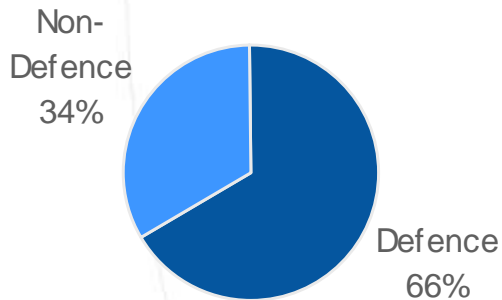
Broad spread of combined revenues



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Combined pro forma revenues of £3bn
for year ended 31 March 2009

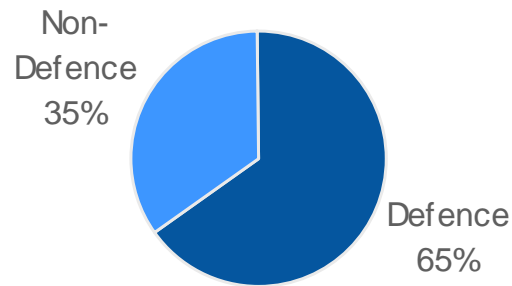
VT Group



Total 2009: £1.1bn



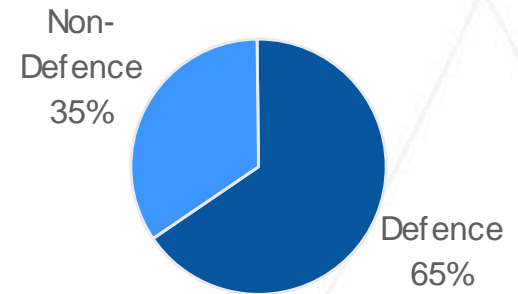
Babcock



Total 2009: £1.9bn



Combined



Total 2009: £3.0bn



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A logical combination

- Babcock and VT – a much discussed combination
- Two **highly complementary businesses**, similar
 - markets and contracts
 - customers
 - engineering based skills, knowledge and experience
 - cultures
 - reputations for quality, service and delivery
 - history
- We already understand
 - customers' requirements
 - competitive environment
 - market opportunities



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Strategic rationale

Peter Rogers



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Building on a successful strategy

- We have successfully delivered our strategic objective
 - *to be the leading **engineering support services** company in the UK and selected overseas markets thus creating superior returns for our shareholders*
- We have consistently achieved double digit growth
- We have achieved and consolidated our strong market positions through a series of successful acquisitions
 - nine acquisitions since 2001
- We have established a record of well managed integrations and delivery of merger benefits



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Strategic benefits of acquisition

- Increased scale, skills and capabilities in **core markets**
 - deeper and wider market coverage
 - better placed to lead rather than participate in bids
 - better placed to bid for larger more complex contracts
 - better placed to manage risk
- Delivering a broader range of **customer solutions**
 - increased work share
- Increased **importance** to our **key customers**
 - ability to work in partnership with our customers to provide enhanced solutions
 - better placed to deliver increased services and efficiencies
- Building on an excellent reputation and track record of delivery
 - opportunities to export expertise to **new customers and new geographies**

Defence

Increased scale and capabilities



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- Broad and deep support capability across the UK MoD in land, sea and air

	Infrastructure	Equipment support	Training and education	Communications
Land	<ul style="list-style-type: none"> • RPC East • SLAM 	<ul style="list-style-type: none"> • Jackals • White Fleet • ALC • Allenby Connaught 	<ul style="list-style-type: none"> • RSME Chatham/Minley • REME Bordon/Arborfield 	
Sea	<ul style="list-style-type: none"> • Devonport • Faslane • RPC South West • AWE • Flagship FM • Flagship SLAM 	<ul style="list-style-type: none"> • Submarines • Naval Ships • Equipment Support • White Fleet • Marines • Overseas Navies 	<ul style="list-style-type: none"> • Flagship • RN Fire Fighting • Naval Training • Astute/FAST 	<ul style="list-style-type: none"> • Very Low Frequency Comms – for submarines • Defence High Frequency Comms Service (DHFCS)
Air	<ul style="list-style-type: none"> • RPC South West • RPC East • MACS • MACS 	<ul style="list-style-type: none"> • FSTA • Hawk IOS • White Fleet 	<ul style="list-style-type: none"> • MFTS • BFT / EFT / LAFT • Simulator Training 	

■ = Babcock

■ = VT

Defence

Stronger customer relationships



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- Enhances strategic importance to customer
 - ability to work in partnership with customer to provide enhanced solutions
- Better placed to deliver increased efficiencies and services

	Infrastructure	Equipment support	Training and education	Communications
Land	✓ ✓	✓ ✓ ✓	✓ ✓	
Sea	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓
Air	✓ ✓	✓ ✓ ✓	✓ ✓ ✓ ✓	

Defence Future opportunities



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- Better placed to lead rather than participate
- Enhanced capabilities to win larger, more complex support contracts

Opportunity	Babcock	VT	Combined offering
DTR2 c.£100m p.a.	<ul style="list-style-type: none"> • FM capability 	<ul style="list-style-type: none"> • Training analysis and delivery capability 	<ul style="list-style-type: none"> • Comprehensive solution • Enhanced work share
Whole Fleet Management c.£100–300m p.a.	<ul style="list-style-type: none"> • Marine and land experience • FM capability 	<ul style="list-style-type: none"> • Air and land experience • Extensive fleet management experience 	<ul style="list-style-type: none"> • Complete solution for wide range of military vehicles
DE&S – procurement for non-OEM equipment	<ul style="list-style-type: none"> • Specialist marine knowledge • Extensive MoD spares systems knowledge 	<ul style="list-style-type: none"> • Technical knowledge of airframe maintenance and spares management 	<ul style="list-style-type: none"> • Broader based customer solution for through-life management • Enhanced work share
RFA / MARS	<ul style="list-style-type: none"> • Marine knowledge 	<ul style="list-style-type: none"> • Leasing and contracting for availability 	<ul style="list-style-type: none"> • Strong combined offering enabling real reduction in capital spend

Nuclear

Increased scale, capabilities and coverage



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	Nuclear Power Generation	Nuclear Decommissioning	New Build	Defence and Research
Combined	<ul style="list-style-type: none"> • Sizewell • Hinkley Point • Dungeness • Hartlepool • Heynsham • Hunterston • Torness • Wylfa • Olbury • British Energy (central engineering) 	<ul style="list-style-type: none"> • Dounreay (Tier 1) • Harwell (Tier 1) • Winfrith (Tier 1) • Windscale • Dounreay (Tiers 2 & 3) • Sellafield • Magnox North and South • Capenhurst • Japan, Italy • Latvia • France, Spain & Sweden & Eastern Europe 	<ul style="list-style-type: none"> • NII – Generic design assessment • Development market position with operators and reactor vendors • Detailed technical information and pricing 	<ul style="list-style-type: none"> • Nuclear submarines • Devonport • Faslane • Rosyth • AWE • Culham (JET)

■ = Babcock

■ = VT

■ = Joint

Nuclear Broader offering



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- Operating at Tiers 1, 2 and 3 in both civil and defence nuclear markets
 - 3,000 employees
- Opportunity to build on VT's strong customer relationships at Sellafield
- Combined capabilities strengthen ability to support British Energy's ongoing nuclear operations
- Opportunity to cross sell VT's training and education expertise to Babcock's nuclear customers
- Combined strengths
 - VT's waste storage boxes + Babcock's dry storage systems = balanced offering
- International
 - enhanced position in international markets - Canada, Italy and Eastern Europe

Critical infrastructure

Increased scale



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- Strong business in government and regulated industries
- Complementary skills across a broader range of customers

	Infrastructure	Equipment support	Training and education	Communications
Civil	<ul style="list-style-type: none"> • National Grid • EDF • Eskom • Network Rail 	<ul style="list-style-type: none"> • BA Ground Support • Metropolitan Police • New Dimensions – Home Office • BAA Baggage • Volvo customers 	<ul style="list-style-type: none"> • Network Rail • British Energy • Avonmouth Fire • SW Fire • BMW • VW • Local Authorities / LSC 	<ul style="list-style-type: none"> • Government Agency • BBC World Service • Orange / T mobile • Arquiva

■ = Babcock

■ = VT

■ = Joint

Critical infrastructure

Broader offering



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- Well positioned to use enhanced range of skills and expertise to deliver broader range of customer solutions
- Opportunity to develop strong training and education business in a fragmented civil market
 - with both new and existing customers

	Babcock	VT	Combined offering
Training and education	<ul style="list-style-type: none"> • FM and infrastructure capabilities 	<ul style="list-style-type: none"> • Civil and defence training delivery 	<ul style="list-style-type: none"> • Stronger customer solution
Communications	<ul style="list-style-type: none"> • Infrastructure capabilities 	<ul style="list-style-type: none"> • Broadcast systems and experience 	<ul style="list-style-type: none"> • Opportunity to extend offering and cross sell skills
Metropolitan Police, BBC, BA and Government Agency	<ul style="list-style-type: none"> • FM and technical service capabilities 	<ul style="list-style-type: none"> • Strong relationships with key customers 	<ul style="list-style-type: none"> • Opportunity to extend offering and cross sell skills



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International opportunities

- Well positioned to use enhanced range of skills and expertise to deliver broader range of customer solutions
- Opportunities to sell complementary capabilities in overseas markets where the combined Group has an established presence
 - training
 - equipment support
 - complex facilities management
- Builds on excellent reputation for customer service, delivery and cost reduction
- Opportunities to utilise extensive UK experience of target cost incentive fee contracts



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International opportunities

Markets	Babcock	VT	Combined offering
US	<ul style="list-style-type: none">• Marine technical support capability• TCIF contracts	<ul style="list-style-type: none">• Kings Bay nuclear submarine base infrastructure support contract	<ul style="list-style-type: none">• Develop more technically based support offering at Kings Bay
Canada	<ul style="list-style-type: none">• VISCC contract• Technical support - Air	<ul style="list-style-type: none">• On-board training ships and submarine	<ul style="list-style-type: none">• Opportunity to cross sell training skills• Training services
Australia	<ul style="list-style-type: none">• Growing relationship with Australian DMO• Submarine weapons support	<ul style="list-style-type: none">• Naval training experience• Equipment support - Air	<ul style="list-style-type: none">• Opportunity to cross sell training skills and develop submarine support role• Air opportunities
South Africa	<ul style="list-style-type: none">• Strong market position in power generation support and equipment supply	<ul style="list-style-type: none">• Strong training capability	<ul style="list-style-type: none">• Opportunity to deliver training skills
Middle East	<ul style="list-style-type: none">• Initial marketing presence	<ul style="list-style-type: none">• Oman contracts	<ul style="list-style-type: none">• Opportunities in equipment support, training and nuclear regulation



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Key financials

Franco Martinelli – Group Financial Controller



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Transaction structure

- Recommended cash and shares offer valuing each VT share at 734.9p
 - cash of 361.6p per share
 - 0.701 new Babcock shares – equivalent to 373.3p per share ⁽¹⁾
- Offer represents a premium of 39.5% to the one month average share price for VT on 12 February 2010
- Mix and match facility
- Offer to be effected by way of a Scheme of Arrangement

(1) Based on the closing price of 532.5p per Babcock share on 22 March 2010



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Financial highlights

- **Strong** financials
 - £3bn 2009 pro forma revenue
 - anticipated merger benefits of c.£50m p.a. and financial efficiencies of c.£8m p.a.
 - expected net debt to EBITDA of c.2.9x* at the time of acquisition
 - excellent cash generation
 - historic cash conversion 2009 - Babcock 115%, VT 105%
 - earnings enhancing in first full year**
- Excellent **visibility** and **security** of revenue through
 - combined order book of c.£10bn underpinned by long-term contracts

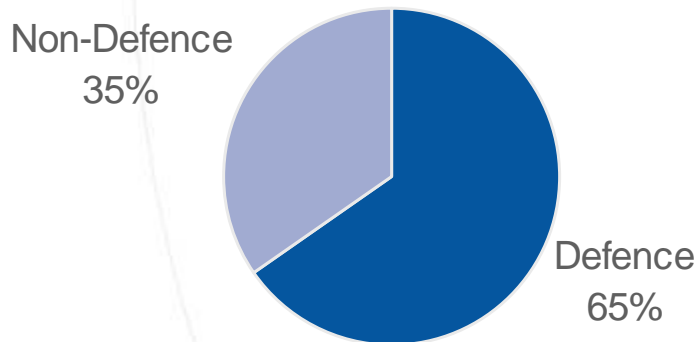
Broad spread of combined revenues



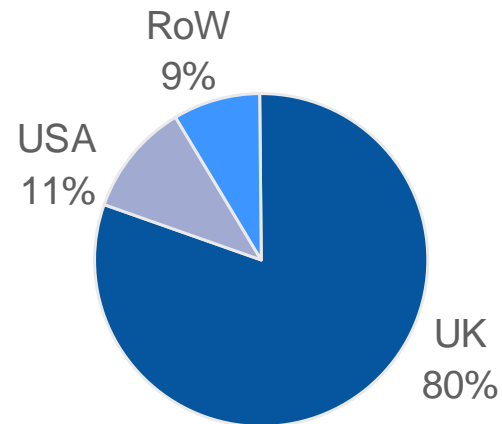
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Combined pro forma revenues of £3bn
for year ended 31 March 2009

Revenue split
by sector



Revenue split
by geography





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Strong synergies

- Anticipated merger benefits of c.£50m p.a. by end of 2013 financial year (pre-tax)
 - expected additional financial efficiencies of c.£8m p.a.
 - less than 2% of combined revenue
- Sources of cost savings include:
 - eliminating duplicate management teams at head and regional offices and associated overhead
 - property rationalisation
 - rationalising back office/shared services
 - procurement savings
- Total one-off cost of delivering savings of c.£45m all of which are expected to be incurred by the end of the second full financial year following completion



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Robust capital structure

- VT shareholders will own c.36% of the issued share capital of enlarged Group
 - 126.5m Babcock ordinary shares to be issued
- Babcock has entered into
 - a bridge facility of £400m and
 - a backstop facility of £600m
- Expected net debt to EBITDA of the enlarged Group at the time of acquisition of c.2.9x*
- Enlarged Group expected to continue to be highly cash generative
 - historic cash conversion 2009 - Babcock 115%, VT 105%
- Strong focus on cash management and balance sheet efficiency



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Expected timetable of events

- Rule 2.5 announcement – 23 March 2010
- Documents posted to shareholders – end of April 2010
- Babcock full year results announced – 11 May 2010
- Regulatory clearance – HSR, OFT, CFIUS – May/June 2010
- Babcock General Meeting to approve acquisition – May 2010
- VT General Meeting and Court Meeting – early June 2010
- Expected completion and Scheme effective date (admission of consideration shares and de-listing of VT) – mid July 2010



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Summary

Peter Rogers

Integration plan

Managing the enlarged Group



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- Track record of **successful acquisitions** and delivery of merger benefits
- **Significant integration experience** within senior management team
- **Excellent co-operation** from VT senior management team

Combined Group

Strategic market positions



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- Marine
 - unique infrastructure and customer position
 - key role on all major UK naval defence initiatives
- Defence
 - strong position to serve the customer across land, sea and air
 - key capabilities in equipment support, infrastructure, training and communications
- Training
 - strong position in defence and civil training markets
 - opportunity to develop stronger business in a fragmented market
- Nuclear
 - strong Tier 1, 2, 3 and consultancy positions
 - capabilities across operation, site management, decommissioning and new build
- Critical infrastructure
 - strong customer franchise across a range of assets
 - opportunity to cross sell combined capabilities
- International
 - opportunity to cross sell combined capabilities in established overseas markets



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In summary

- The combination of Babcock and VT
 - brings together **two highly complementary** businesses
 - creates one of the **largest and most focused engineering support service companies** in the UK
- **Clear and compelling** strategic rationale
 - increased scale and capabilities in core markets
- **Strong** financial position
 - excellent cash generation
 - anticipated merger benefits of c.£50m p.a. and financial efficiencies of c.£8m p.a.
 - strong balance sheet
 - earnings enhancing in first full year*
- Excellent **long-term visibility** and **financial security**
 - order book of c.£10bn underpinned by long-term contracts



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