Half Year Results

for the six months ended 30 September 2011

8 November 2011

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Agenda

• First half highlights	Peter Rogers
• Financial review	Bill Tame
• Divisional outlook	Peter Rogers
• Questions	Peter Rogers Bill Tame Archie Bethel John Davies Kevin Thomas

First half highlights

- Continuing our track record of delivering strong financial results
- Good organic growth as well as impact of VT acquisition
  - revenue £1.6bn + 30%
    - organic growth + 5%
  - operating profit £161.7m + 42%
    - organic growth + 15%
  - profit before tax £132.8m + 46%
  - eps 29.79p + 21%
- Secure financial position
  - net debt £679m reduced from £729m at 31.03.11
  - cash conversion 117%
- Delivering value for shareholders
  - interim dividend 5.70p + 10%

Supporting future growth

- 2010/11 created a strong platform for growth
- Continued to build on this success during first half 2011/12
- Economic environment continues to create opportunities
  - customers need to find improved delivery methods
  - bid pipeline doubled in 12 months
  - currently tracking a variety of significant opportunities
- Confident in outlook for the Group

Financial review

Bill Tame

Group Finance Director

Income statement*

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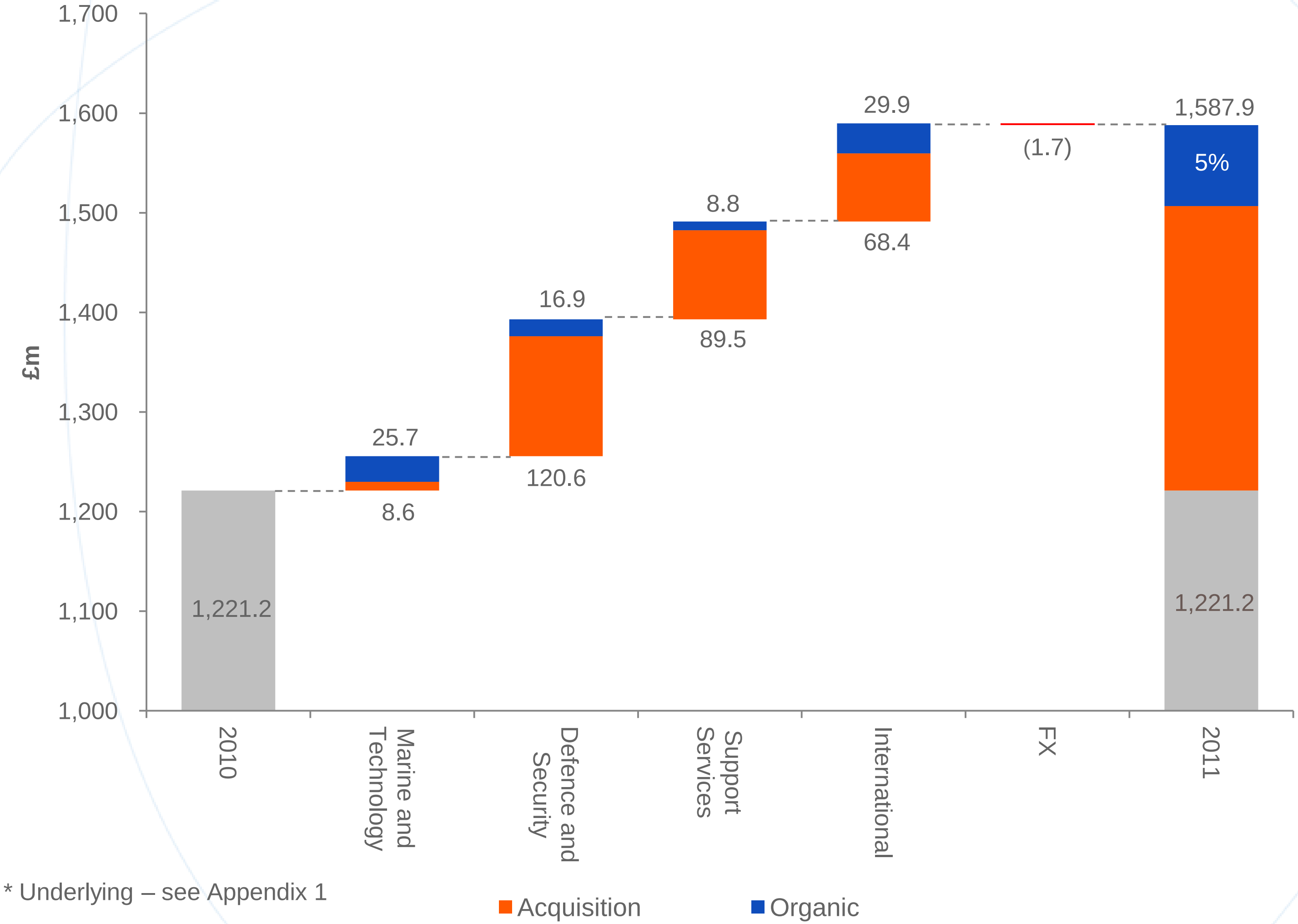
	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	**1,587.9**	1,221.2	+30
Operating profit	**161.7**	113.7	+42
Operating margin	***10.2%***	*9.3%*	
Net finance cost			
group	**(18.4)**	(18.3)	
jv	**(10.5)**	(4.5)	
	(28.9)	(22.8)	
Profit before tax	**132.8**	90.9	+46
Tax	**(25.3)**	(18.6)	
Effective rate	***19.0%***	*20.5%*	
Profit after tax	**107.5**	72.3	+49
eps	**29.79p**	24.56p	+21
Interim dividend	**5.70p**	5.20p	+10

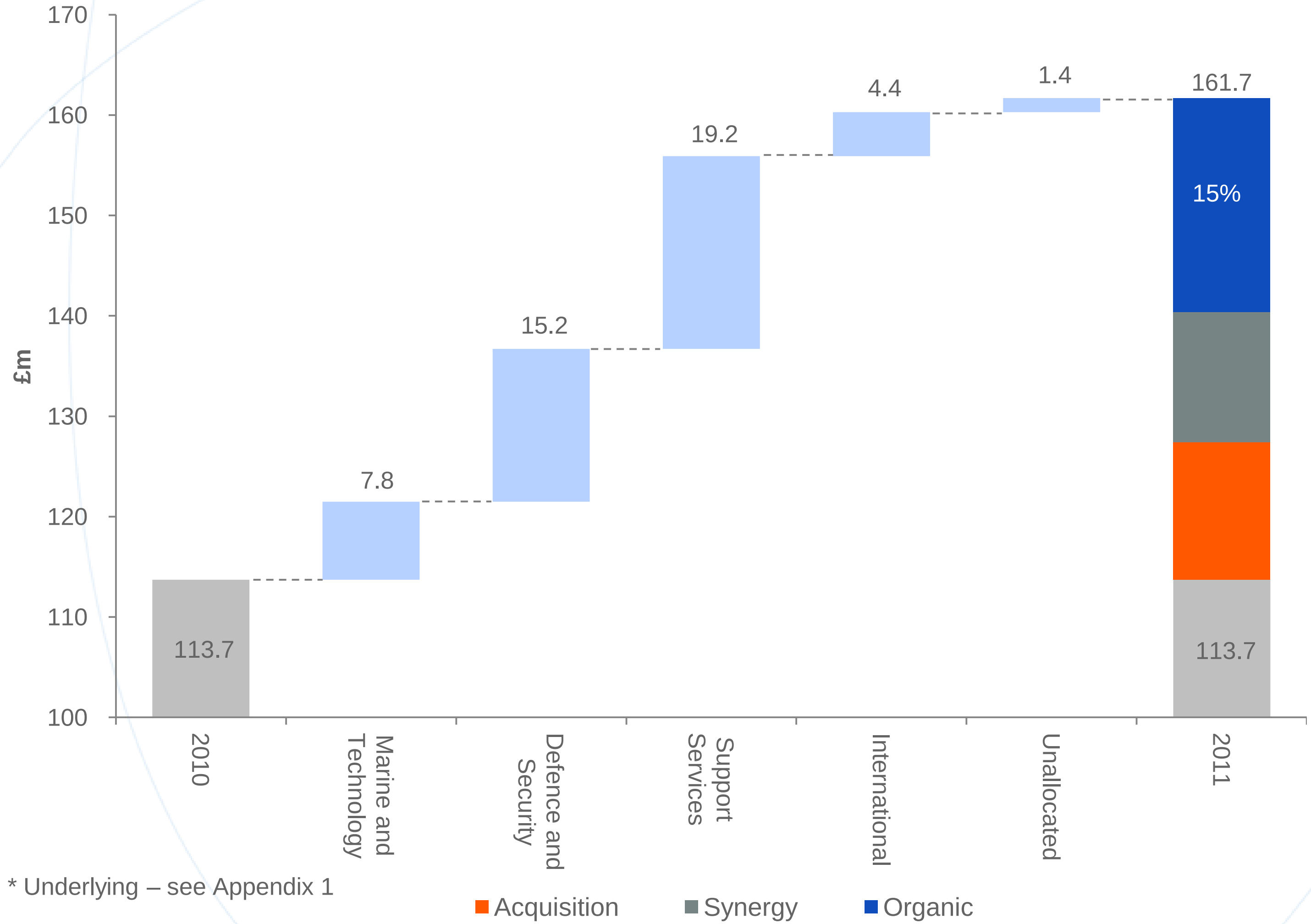
* Underlying – see Appendix 1

Bridging analysis
Revenue*



* Underlying – see Appendix 1

Bridging analysis
Operating profit*



* Underlying – see Appendix 1

Marine and Technology

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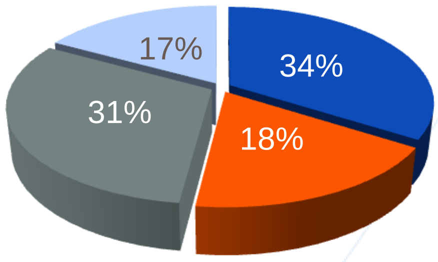
- Revenue growth strong
  - 5% organic
  - strong growth in core businesses: Submarines, Warships, Naval Bases and Technology
- Warship Support and aircraft carrier programmes progressing well
  - warship revenue increased c 20% to £128m
- Submarine support programmes progressing well
  - HMS Vigilant moving towards completion in Q4
  - first packages of support work on HMS Astute completed
- Technology revenue grew c 10% to c £200m
  - now over 35% of divisional revenue
  - international revenues increasing to c 30% of Technology
- Margin benefited from contract phasing and maturity

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	538.0	502.4	+ 7
Operating profit	67.4	59.6	+ 13
Operating margin	12.5%	11.9%	

Revenue by division

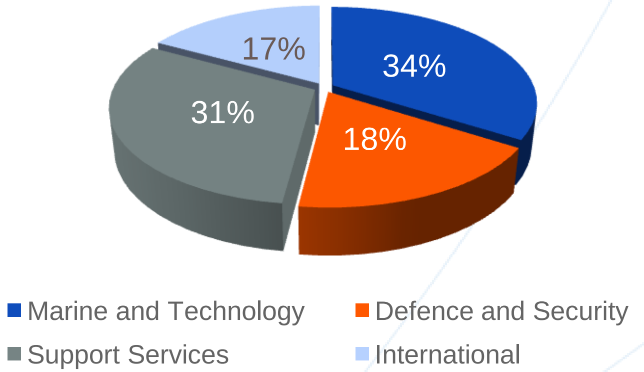


Defence and Security

- 6% organic revenue growth
  - volume growth in RSME, ALC and White Fleet
- Short-term benefit from training contract extensions
- Awarded Naval Training (FOAP) rebid
  - operational 01.01.12
- Awarded Service Provider contract for Project Phoenix – White Fleet framework
  - current contract extended to 01.02.12
- Operating margin reduced as expected after completion of Main Operating Base phases for FSTA and MFTS

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	292.4	154.9	+ 89
Operating profit	38.8	23.6	+ 64
Operating margin	13.3%	15.2%	

Revenue by division

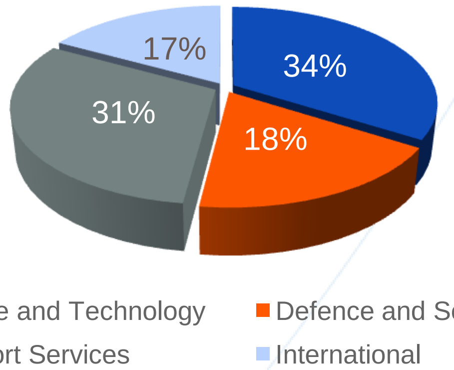


Support Services

- c 2% organic revenue growth
  - delays to start dates on nuclear contracts
  - UK Infrastructure Primes' volume stable
  - Rail up 10%
- Growth rate expected to pick up in H2
  - British Forces' bases in Germany operational
  - Lafarge further phases
  - nuclear decommissioning projects at Sellafield
- Margins benefiting from
  - synergy savings
  - improved performance in Rail and Nuclear
  - Infrastructure gain-share

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	490.1	391.7	+ 25
Operating profit	44.9	25.7	+ 75
Operating margin	9.2%	6.6%	

Revenue by division

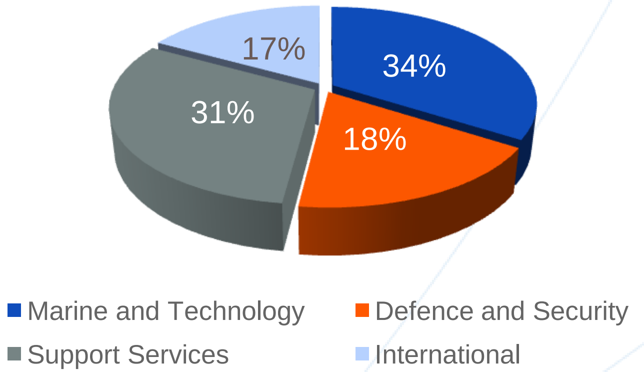


International

- 12% organic revenue growth
- South African revenue up 34% to £142m
  - Equipment market significantly better than 2010 but still some uncertainty
  - Power market also growing and H2 expected to be strong
- Margins improving but remain under pressure
- US defence revenue down to £116m
  - exiting low margin base operations business
  - DoD budgets under pressure leading to slow award rate
- Divisional margins in the 5% zone as expected

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	267.4	172.2	+ 55
Operating profit	14.2	9.8	+ 45
Operating margin	5.3%	5.7%	

Revenue by division



Acquisition of VT
Cost synergies on track

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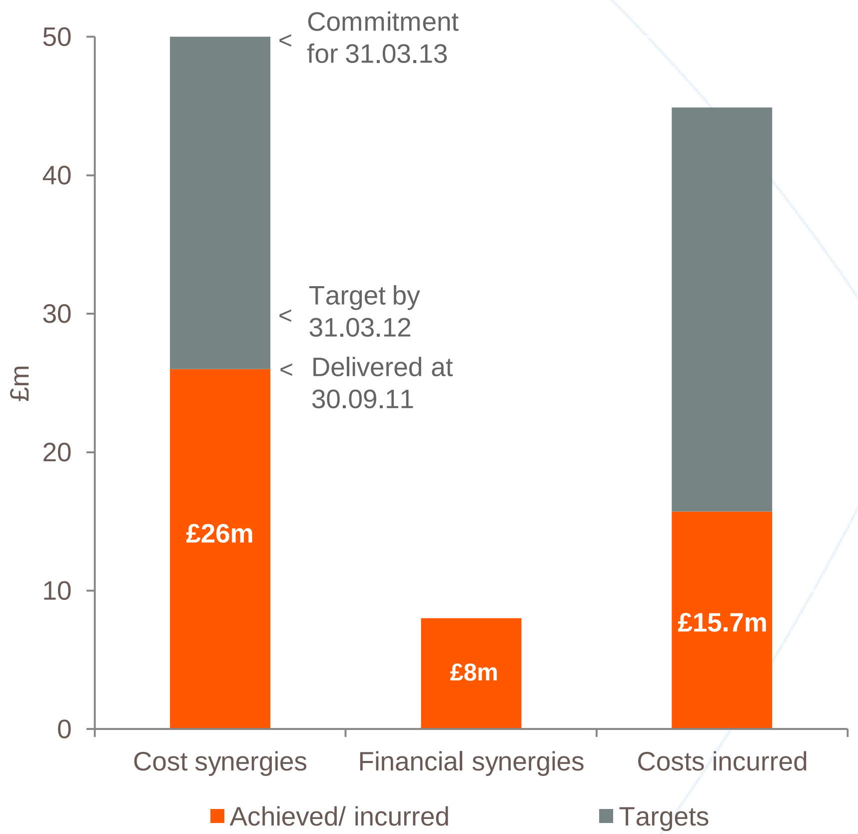
- Achieved to date
  - £13m synergies in H1 result
  - £26m annualised run rate achieved
  - £35m run-rate target by 31.03.12
- IT and procurement projects progressing well and set to deliver target savings
- Cumulative cost of realisation at 30.09.11 was £15.7m
  - £5m charged in H1
  - up to £15m expected for full year
  - total outturn costs estimated at £45m by 31.03.13



Cash flow

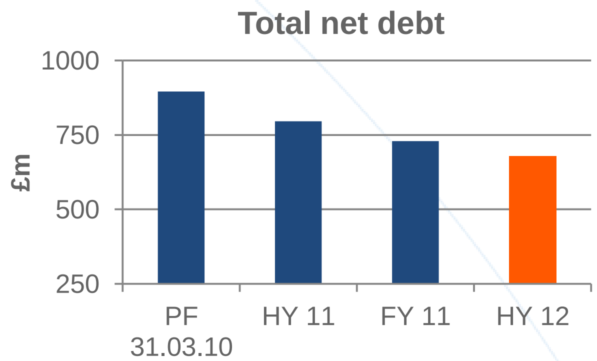
- Cash conversion 117%
  - maintained > 100% track record
- Major capital programmes in IT and Marine and Technology driving higher spend
  - H1 net spend £22m
  - expecting up to £60m for full year
- Dividend payments significantly higher reflecting increased issued share capital post VT acquisition

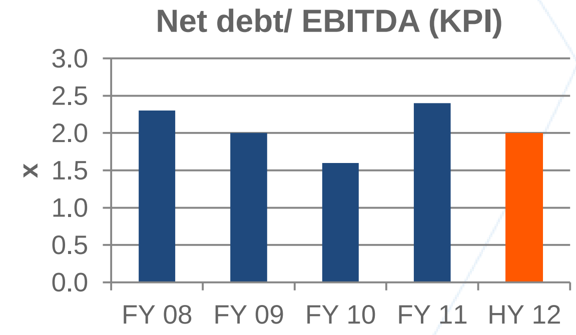
	H1 2011/12 £m	H1 2010/11 £m	FY 2010/11 £m
Operating profit	**101.6**	75.7	178.2
Non-cash items/ exceptionals	**59.6**	29.3	103.5
Working capital	**(3.5)**	38.3	26.8
Cash from operations	**157.7**	143.3	308.5
Cash conversion	***117%***	*158%*	*146%*
Net capital expenditure	**(22.3)**	(8.9)	(33.2)
Interest	**(20.1)**	(16.3)	(50.0)
Tax	**(16.3)**	(5.6)	(19.3)
Free cash flow	**99.0**	112.5	206.0
Acquisitions/disposals	**(3.0)**	(575.5)	(574.3)
Dividends	**(51.9)**	(30.7)	(51.5)
Other	**6.1**	(0.1)	(6.9)
Net cash flow	**50.2**	(493.8)	(426.7)

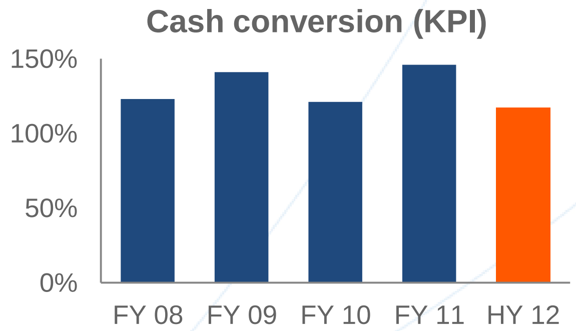
Deleveraging

- Total net debt closed at £679m down from
  - c £890m pro forma at 31.03.10
  - £796m at 30.09.10
  - £729m at 31.03.11

- Net debt/ EBITDA 2.0x
  - tracking to below 2.0x by 31.03.12 as previously indicated



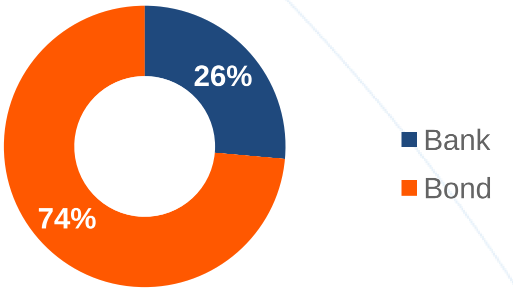




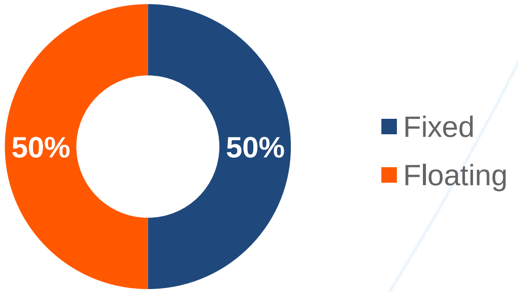
Interest and refinancing

- Completion of revolving credit facility
- £500m committed facility
- Duration of 5 years 3 months
  - agreed June 2011
- Completes refinancing of £1bn main corporate facility following acquisition of VT Group plc

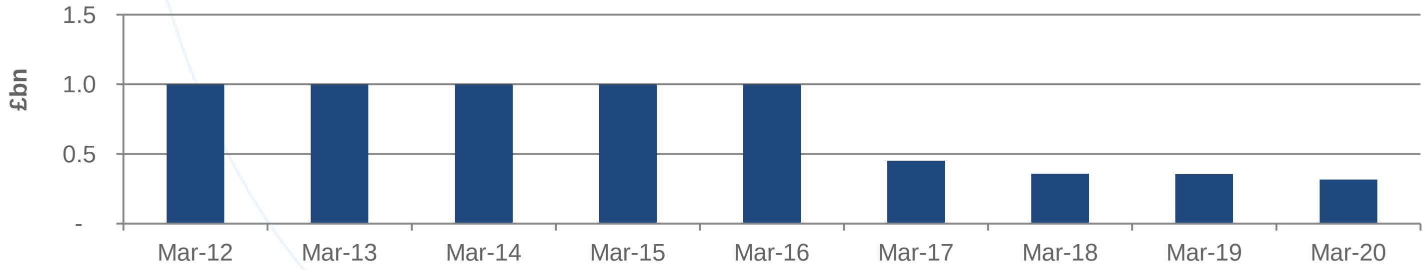
Net debt profile



Interest profile



Maturity profile of committed £1bn borrowing facilities



Pensions summary

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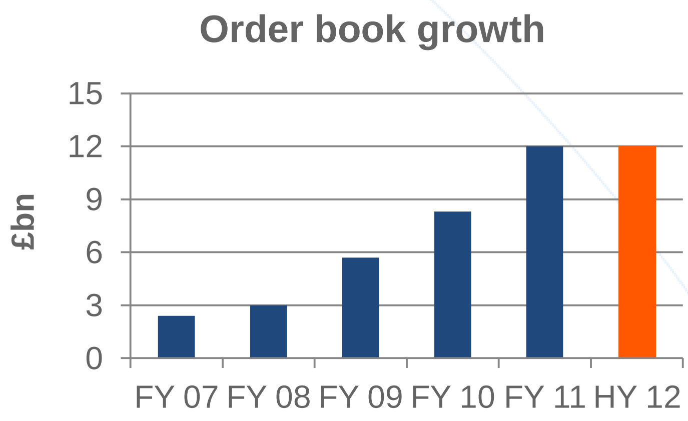
- Decline in AA bond yields increased liabilities
- Negative asset returns
- Deficit up from £225m to £317m
  - but still below 30.09.10 level
- Investment and hedging strategy is paying off both at balance sheet and income statement level
  - less volatility in the deficit
  - interest components move more in tandem
- IAS19 valuations have no effect on cash contributions

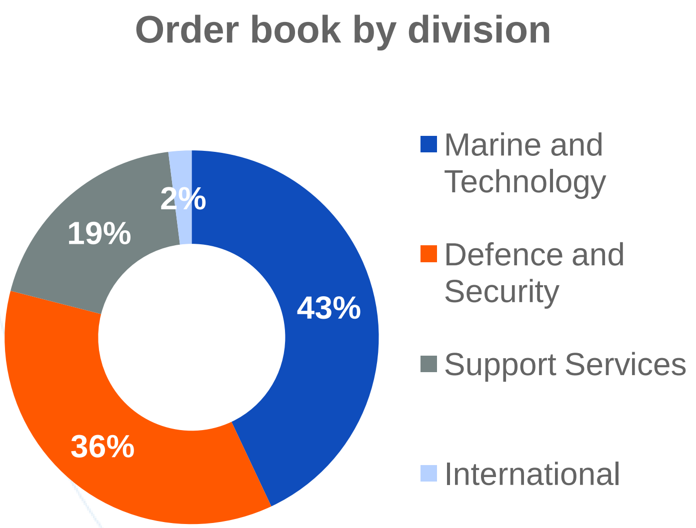
Balance sheet	HY 2011/12 £m	FY 2010/11 £m	HY 2010/11 £m
Assets	**2,472.8**	2,579.9	2,471.6
Liabilities	**(2,790.2)**	(2,805.0)	(2,828.0)
Deficit	**(317.4)**	(225.1)	(356.4)

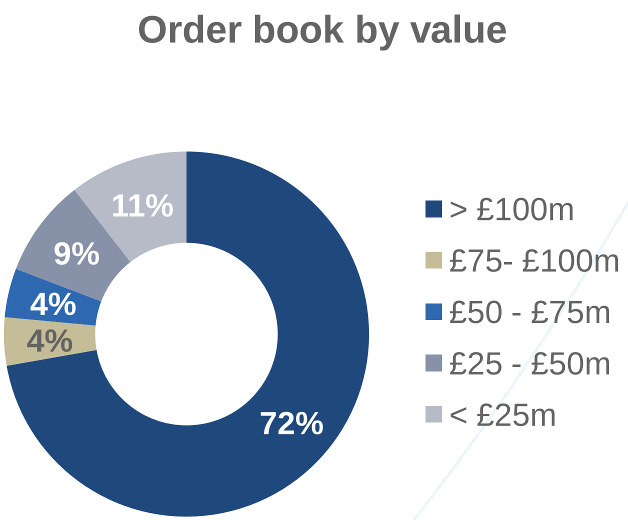
Income statement	Est. FY 2012 £m	HY 2011/12 £m	FY 2010/11 £m
Service cost	(46.4)	**(22.7)**	(46.0)
Expected return on assets	172.1	**86.0**	152.6
Interest on obligations	(145.7)	**(72.8)**	(135.6)
Net charge to operating profit	(20.0)	**(9.5)**	(29.0)

Order book

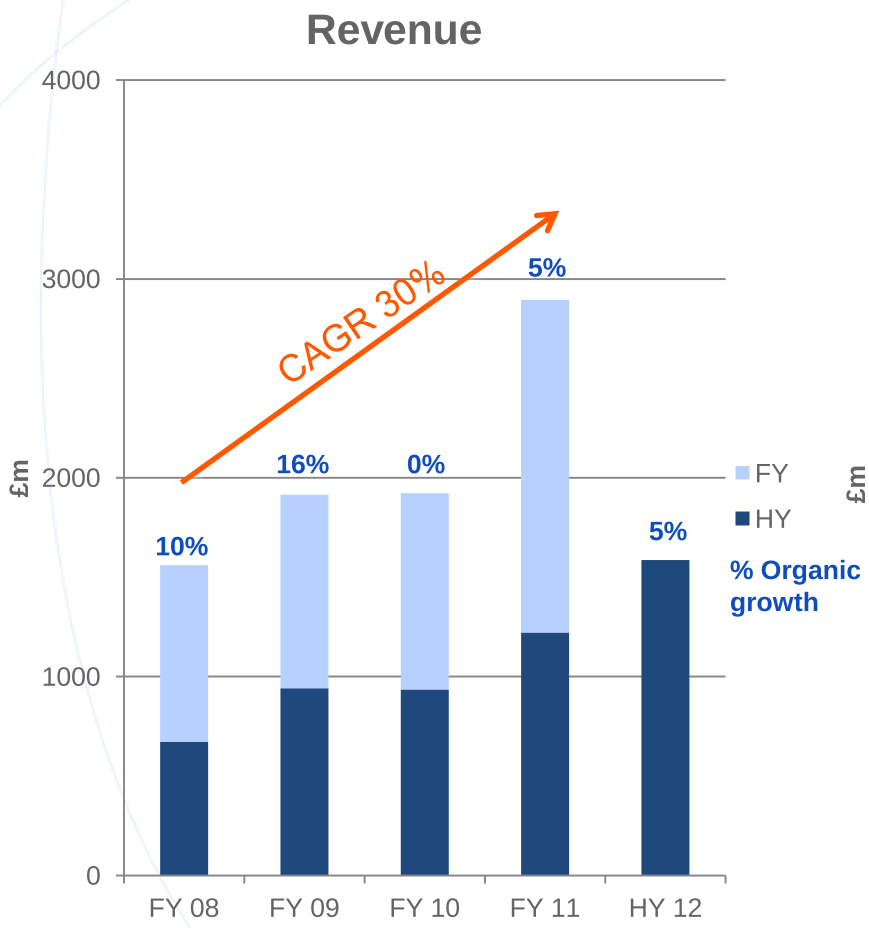
- Order book c £12bn at 30.09.11
- Revenue coverage for 2011/12 is 92%
  - we have visibility of >70% revenue 2012/13
  - excludes Marine and Technology forward programmes, 'IDIQ' contracts and South Africa
- Regular flow of "book and burn" contracts into order book

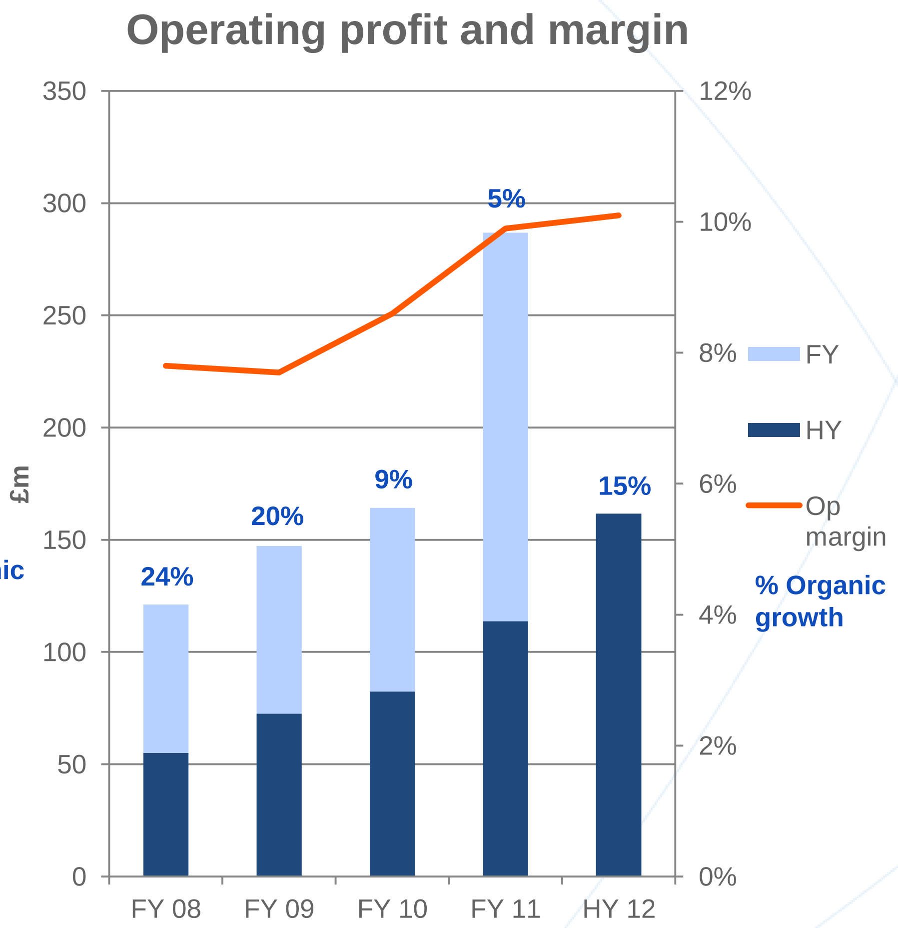






Sustained track record of growth





Well positioned to deliver

- Earnings growth
- Debt reduction
- Credit facilities and financing in place
- Pensions managed
- Order book stable

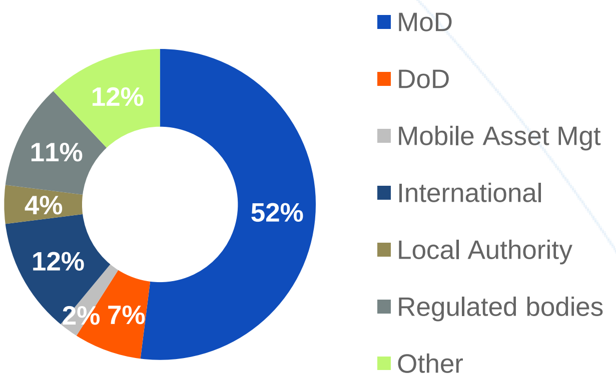
Divisional outlook

Peter Rogers
Chief Executive

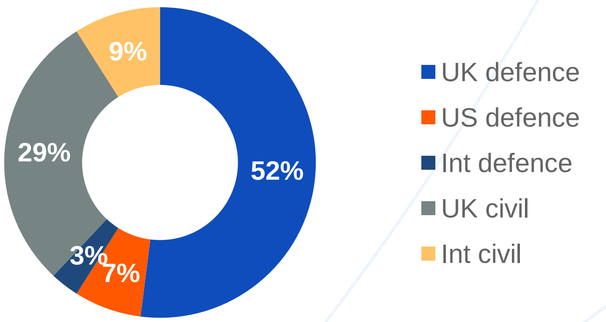
Well positioned for growth

- The UK's leading engineering support services company
  - our objective is to grow from this position in both the UK and overseas
- We have the right business model for our preferred customers
- We can be part of the solution
  - focus on value for money solutions; reduce inefficiencies without reducing quality of service
- We sell cost saving solutions aligned to service improvements
- Significant growth opportunities in new and existing markets

Our customers



Customers by category



Positive trading environment

- No change to financial constraints being experienced by our customers
- Long-term relationships are of fundamental importance in this economic environment
  - need to understand customers' business and operational requirements
- Ongoing dialogue with Central Government, Cabinet Office, MoD and military customers

Customers' economic environment
– financially constrained
– cost reductions required

Options
– reduce output
– eliminate services
– find different delivery models

Requirements
– work with partners to provide value for money and reduce inefficiency without reductions in service or quality
– outsource

The Babcock solution - well positioned to deal with these market conditions
– detailed knowledge and understanding of our customers' businesses and operational requirements
– unrivalled scale of resource, experience and depth of knowledge

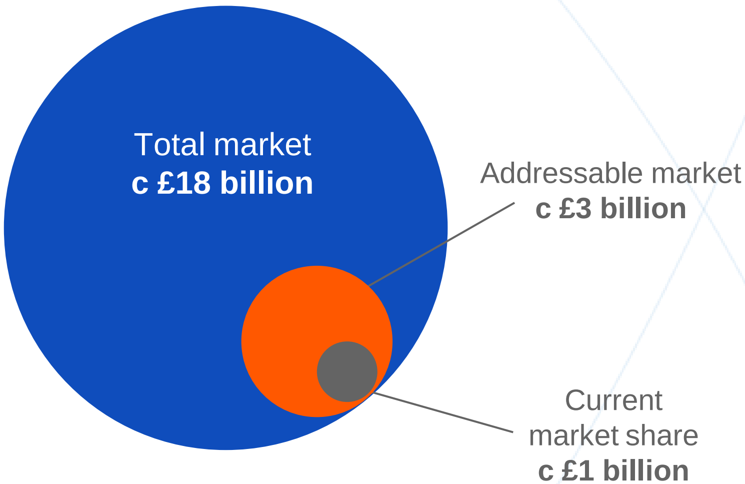
Marine and Technology

Building on long-term relationships, knowledge and experience

- Ongoing, long-term programmes and agreements
  - opportunities to expand role and scope of involvement
  - Aircraft Carrier Alliance
    - developed major role in project; opportunities to expand further with additional re-engineering packages required
  - ToBA developing new opportunities through designated roles including submarine dismantling programme

- International growth building on success of UK operations
  - 10% of division's revenue and growing
  - increasing presence in key markets
    - Canada - planning for second submarine regeneration package, HMCS Corner Brook
    - Australia - won first technology support contract for SEA 1000 future submarine project
    - exploring opportunities in Brazil, Chile and South Africa

DE&S spend on defence services



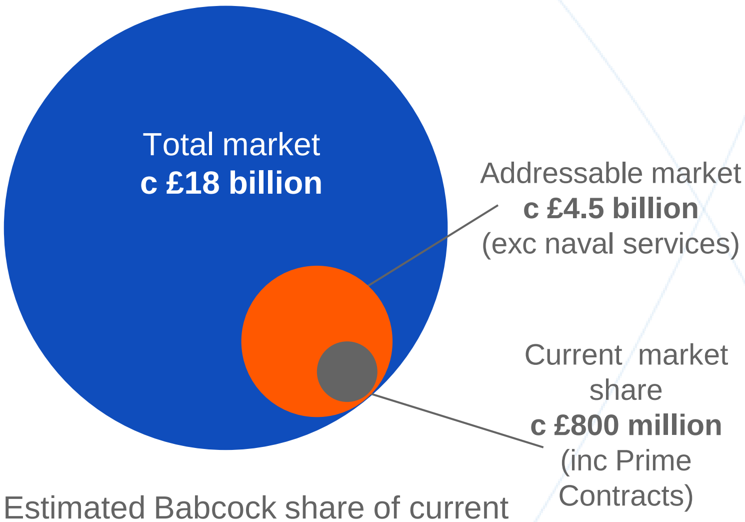
Estimated Babcock share of current outsourced market c 20%

Defence and Security

Helping to shape future solutions

- Military Training
  - well positioned to secure future tri-service training and support opportunities given our proven capability
    - RSME, REME, Armour Centre, Flagship and UKMFTS
  - further extensions to existing contracts expected whilst MoD define long-term solutions
  - currently presenting unsolicited proposals to support new training initiatives
- Vehicle and Equipment Support
  - well positioned to secure total support for all military vehicles including combat, logistics and specialist vehicles
  - won Project Phoenix the White Fleet service provider contract
  - awaiting decision on DSG
  - build upon current aircraft support capability
  - currently presenting unsolicited proposals to support future initiatives

DE&S spend on defence services



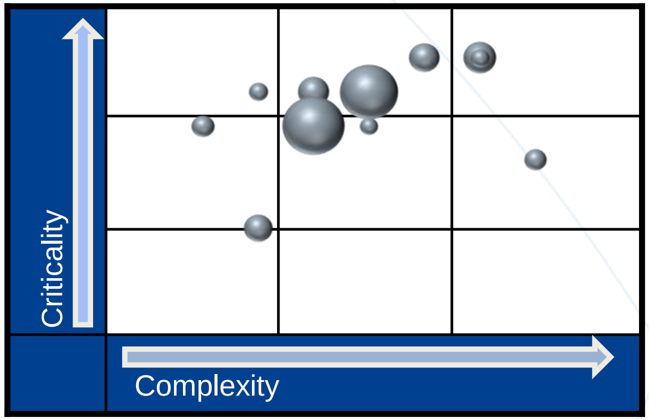
Estimated Babcock share of current outsourced market c 20%

Support Services

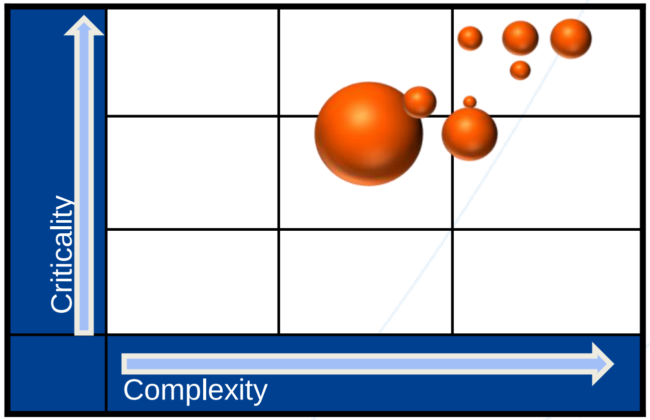
Using success of current operations to demonstrate benefits of outsourced operations in the UK and overseas

- Focusing on delivering complex and critical support to the high value end of the market
  - nuclear decommissioning; imperative unchanged post Fukushima
  - major engineering projects starting to come through at Sellafield
    - as well as future decommissioning opportunities
  - Mobile Asset Management; a transformational fleet management system
    - exclusive negotiations with Lafarge worldwide
    - attractive model for similar customers within these markets
- Building on established strong market positions and reputation
  - apprentice training high on the Government's agenda
    - volume has increased over past 5 yrs and continues to grow
    - talking to new customers in retail and automotive markets
- Infrastructure
  - significant organisational restructuring at DIO
  - Next Generation Estates Contracts > £5bn over 10 year period

Current contracts



New bids moving to higher value positions



International

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- South Africa
  - critical shortage of power ongoing
  - demand for equipment strong
    - highly competitive market
    - margins maintained
  - Powerlines won Mercury/ Makoodi 400kw transmission line c £16m to 31.03.13
- Opportunities to
  - develop position with Eskom on support for future power stations
  - increase market share for Volvo
  - extend DAF dealership network across Southern Africa
  - investigate and develop training strategy
    - critical requirement for SA which will build on Group expertise

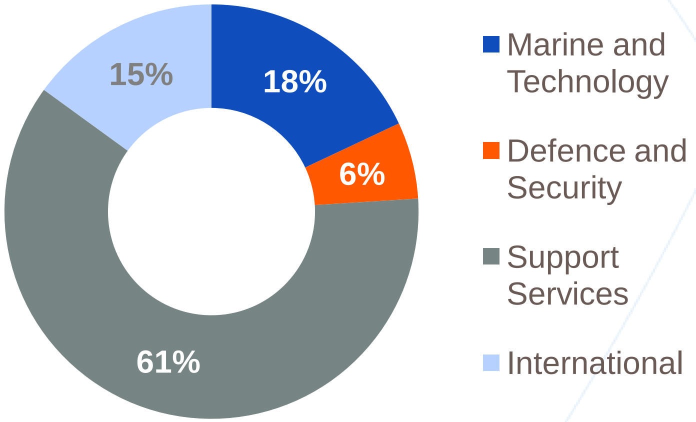
- Middle East
  - currently establishing our position in attractive markets ideally suited to our business model
  - rising education spend across region
  - creation of industrial/ knowledge based economy
- Key markets
  - military training
  - equipment support
  - naval support
  - vocational training

- VT Inc
  - market affected by DoD budget pressures
  - starting to reposition portfolio to higher value areas
  - strong pipeline of opportunities
  - continue to review options for business

Bid pipeline

- Current bid pipeline (PQQ and later) stands at £10bn
  - in line with forecast
  - reflects positive environment for increased outsourcing
- New bids make up 68% of the pipeline
- Currently 23 bids > £100m
  - comprising 66% of our pipeline by value
  - majority of bids fewer than 3 competitors
- Next significant rebid in 2014/15
  - Regional Prime contracts to be replaced by Next Generation Estates Contract
- Expect stability in pipeline as number of bids awarded in next 6 months move into order book and further tracking opportunities move into bid pipeline
- Significant opportunities at tracking stage

Pipeline by division



Forthcoming contract awards

Contract	Award date	No. of competitors	Length of contract
Dounreay PBO	Q4 2011	1	> 10 yrs
London Fire Brigade Training	Q4 2011	1	25 yrs
Devon County Council School Improvement	Q4 2011	1	7 yrs
Sellafield Apprentice Training	Q4 2011	2	4 + 4 yrs
BBC World Service	Q4 2011	0	10 yrs
HMS Vengeance LOP (R)	Q1 2012	0	3 - 4 yrs
NGEC – Scotland & Northern Ireland	H2 2012	3	5 yrs
NGEC – National Housing	H2 2012	2	5 yrs
NGEC – Defence Training Estate	H2 2012	3	5 yrs
Successor Weapons Handling and Discharge System (early design phase)	Q4 2012	0	6 yrs
Total indicative value	**> £4.5bn**		

A strong platform for the future

- Current market continues to create opportunities
- We have the right business model to benefit in this environment
  - strong market positions
  - depth and breadth of skills and capabilities
  - long-term relationships with our customers
  - we understand their operational requirements
  - track record of delivering efficiencies
- Financially secure business
  - excellent track record of delivering strong financial results
- The Board remains confident in the outlook for the Group
  - expect to make good progress this year, in line with our expectations, and build on this in 2012/13

Questions?

Appendix

Appendix 1

Statutory to underlying reconciliation

	Statutory £m	Revenue from jvs £m	Operating Profit £m	Interest cost £m	Tax £m	IFRIC 12 Income £m	Amortisation £m	Exceptional Items £m	Underlying £m
30 September 2011									
Revenue	**1,499.8**	88.1							**1,587.9**
Operating profit	**96.7**		4.6			12.9	42.6	4.9	**161.7**
Share of profit from jvs	**0.8**		(4.6)	10.5	1.8	(11.6)	3.1		**-**
Investment income	**1.3**					(1.3)			**-**
Net finance cost	**(18.4)**			(10.5)					**(28.9)**
Profit before tax	**80.4**	-	-	-	1.8	-	45.7	4.9	**132.8**
Tax	**(7.1)**				(1.8)		(12.4)	(4.0)	**(25.3)**
Profit after tax	**73.3**	-	-	-	-	-	33.3	0.9	**107.5**
30 September 2010									
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 jvs	**-**		(2.6)	4.5	(0.1)	(4.1)	1.0	1.3	**-**
Investment income	**0.7**					(0.7)			**-**
Net finance cost	**(18.3)**			(4.5)					**(22.8)**
Profit before tax	**41.1**	-	**-**	-	(0.1)	-	31.6	18.3	**90.9**
Tax	**(6.5)**				0.1		(8.8)	(3.4)	**(18.6)**
Profit after tax	**34.6**	-	**-**	-	-	-	22.8	14.9	**72.3**

Appendix 2

Segmental analysis

	Revenue		Operating profit		Operating margin	
	HY 2011/12 £m	HY 2010/11 £m	**HY 2011/12 £m**	HY 2010/11 £m	**HY 2011/12 %**	HY 2010/11 %
Marine and Technology	**538.0**	502.4	**67.4**	59.6	**12.5**	11.9
Defence and Security						
group	**233.7**	130.1	**26.4**	18.1	**11.3**	13.9
jv	**58.7**	24.8	**12.4**	5.5	**21.1**	22.2
total	**292.4**	154.9	**38.8**	23.6	**13.3**	15.2
Support Services						
group	**460.7**	377.3	**41.1**	24.5	**8.9**	6.5
jv	**29.4**	14.4	**3.8**	1.2	**12.9**	8.3
Total	**490.1**	391.7	**44.9**	25.7	**9.2**	6.6
International	**267.4**	172.2	**14.2**	9.8	**5.3**	5.7
Unallocated			**(3.6)**	(5.0)		
Total	**1,587.9**	1,221.2	**161.7**	113.7		
group	**1,499.8**	1,182.0	**145.5**	107.0	**9.7**	9.1
jv	**88.1**	39.2	**16.2**	6.7	**18.4**	17.1
total	**1,587.9**	1,221.2	**161.7**	113.7	**10.2**	9.3

Defined benefit pensions
Triennial valuations

	Devonport	BIG	Rosyth	VT SIPS	Others
Last valuation date	31 March 2008	31 March 2010	31 March 2009	31 March 2010	Various
Next valuation date	31 March 2011	31 March 2013	31 March 2012	31 March 2013	Various
Surplus/(deficit) £m	(43.0)	(44.0)	(37.0)	(86.0)	(44.0)
Level of funding %	95%	92%	90%	79%	90%
Annual cash contribution from					
• formal valuation £m	27.0	14.0	11.9	23.6	13.2
• longevity swap funding £m	4.8	0.7	2.5		
• prepayment £m	(16.0)	(10.0)	(4.0)		
Total annual cash contribution £m	15.8	4.7	10.4	23.6	13.2

Defined benefit pensions IAS 19 sensitivities

	Balance sheet £m	Income statement £m
Discount rate 0.1% decrease	(43)	(1.4)
RPI 0.1% increase	(40)	(3.2)
Life expectancy 1/2 year increase	(32)	(2.1)
Real salaries 0.25% increase	(34)	(3.3)

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