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The UK's leading engineering support services company
Bill Tame – Group Finance Director

UBS Staff Agencies and Support Services Conference
14 September 2011

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Babcock International Group PLC



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- The UK's **leading** engineering support services company
- We deliver **critical support** and **training** to customers who own or manage **complex** and **strategically important** infrastructures or assets
- We are equipment or platform agnostic
 - unlike OEM's
- We sell **cost saving** solutions
 - we don't sell equipment

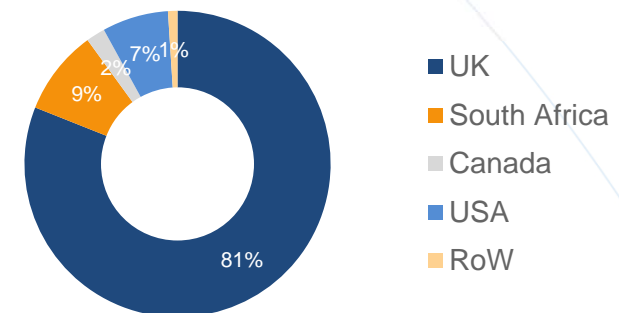
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- The largest supplier of support services to the MoD
- No 1 support provider to Royal Navy
- Leading provider of training services to MoD
- The largest nuclear support services company in the UK
- Leading apprentice training supplier in the UK
- 1 of 2 key suppliers in the UK power transmission sector

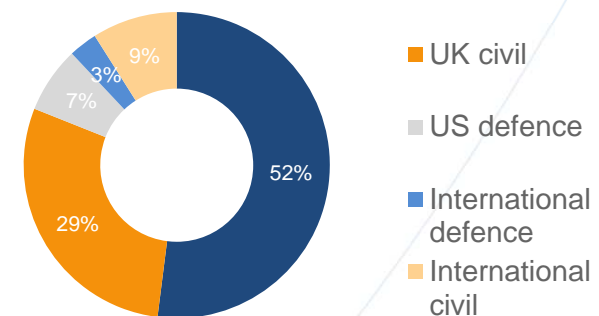
Key facts

- UK listed FTSE 250 company
- 2011 financials
 - £2.9bn revenue
 - £286.9m operating profit
 - £228.2m profit before tax
 - 55.03p eps
- 27,000 employees across the world
 - >85% UK based
- 62% of our business is in global defence markets
 - but **not** an OEM
- Excellent long-term visibility
 - order book £12bn
 - bid pipeline £8.5bn
 - long-term contracts – up to 25 year agreements

Revenue by geography



Customers by category



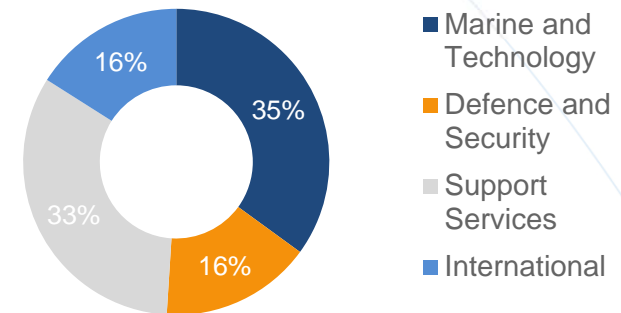
Divisional overview



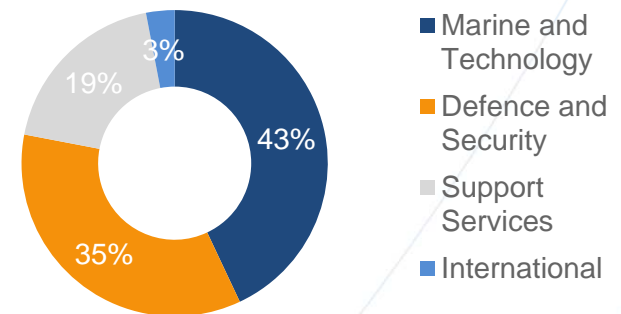
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- **Marine and Technology – 8,900 employees**
£1,019.5m revenue, £119.3m operating profit, 11.7% margin
The UK's leading naval support business with a unique role supporting the Royal Navy
- **Defence and Security – 4,800 employees**
£469.2m revenue, £73.2m operating profit, 15.6% margin
A major support provider to all three UK armed forces delivering training and equipment support
- **Support Services – 10,000 employees**
£946.6m revenue, £79.6m operating profit, 8.4% margin
Delivers a broad range of training and equipment and infrastructure support to civil government, local authority and blue chip companies
- **International – 3,700 employees**
£459.2m revenue, £27.4m operating profit, 6.0% margin
Includes a range of civil and military engineering support activities in the US, South Africa and Middle East

Revenue by division



Order book by division

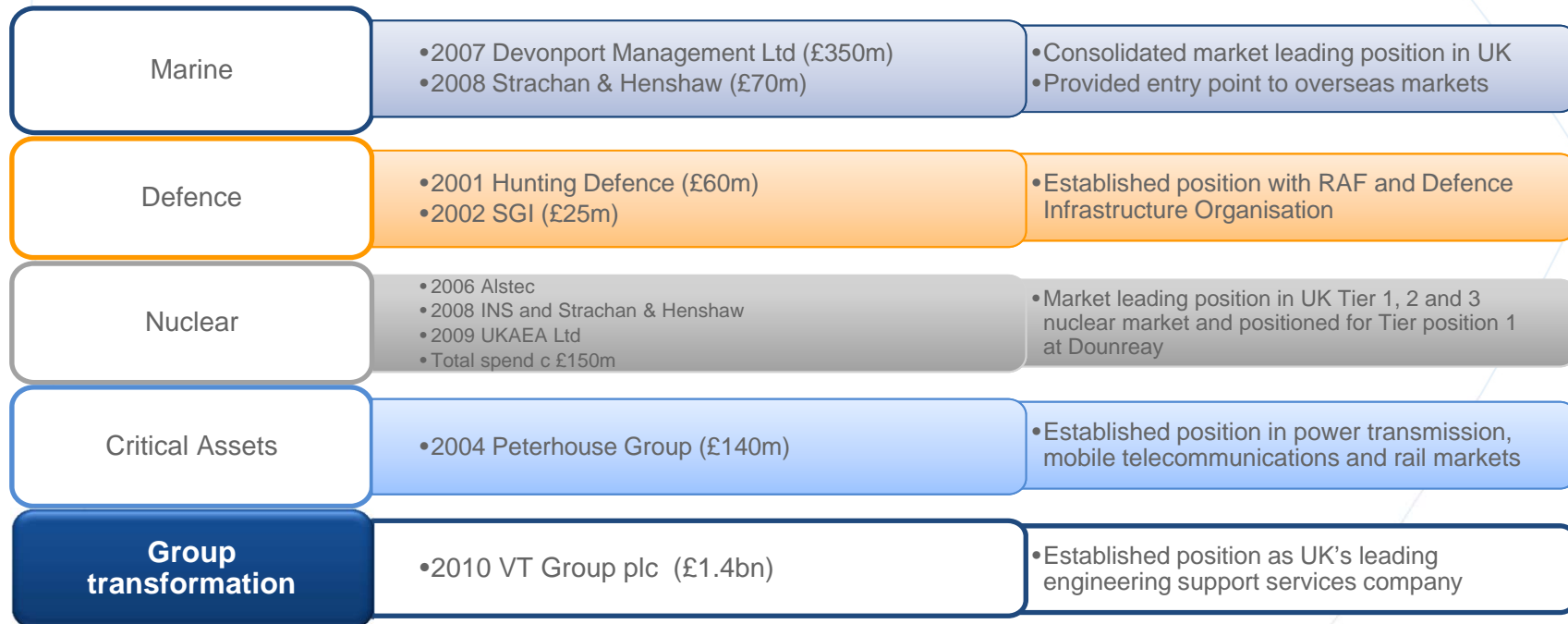


Transformation through acquisition



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- 2001 - launched strategy to change Babcock from an engineering equipment manufacturer to a support services company



VT acquisition



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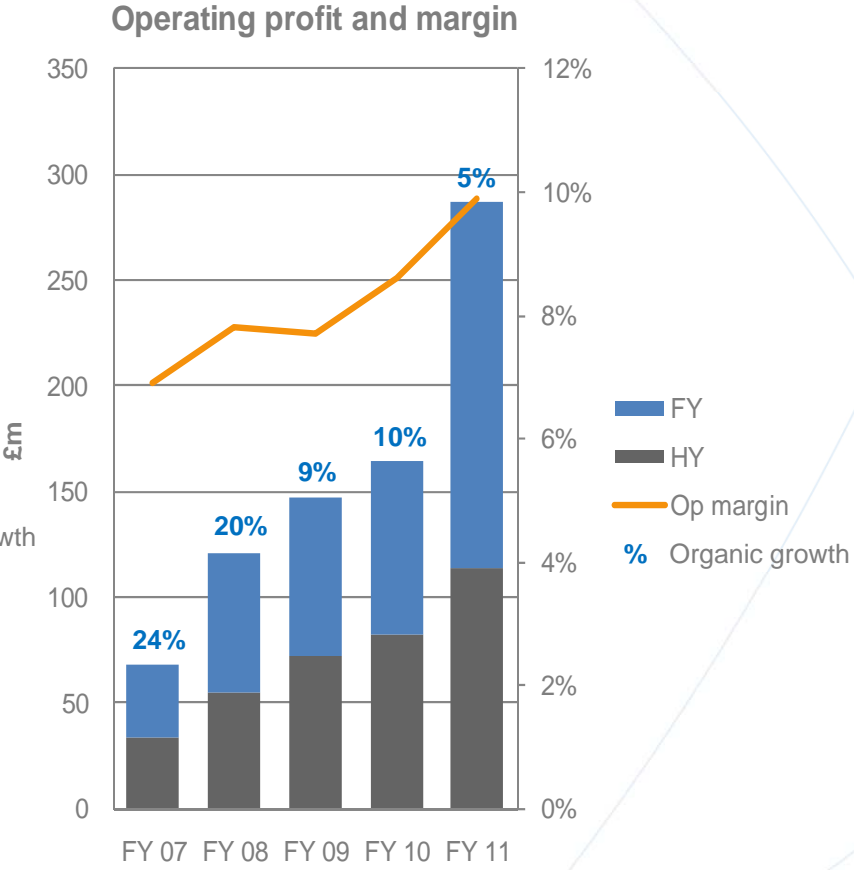
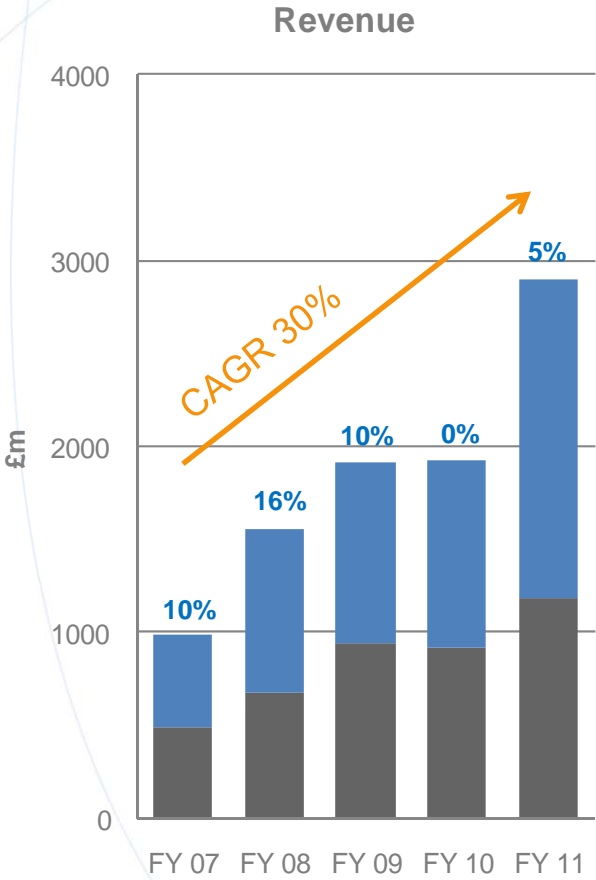
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- Two highly complementary businesses with similar
 - customers
 - markets and contracts
 - engineering based skills, knowledge and experience
 - culture
 - reputation for quality, service and delivery
- Strategic benefits
 - increased scale, skills and capabilities in core markets
 - broader range of customer solutions
 - increased importance to financially constrained key customers
- Financial benefits
 - merger benefits of £50m and financial efficiencies of £8m to be delivered by end of 2013

Sustained track record of growth



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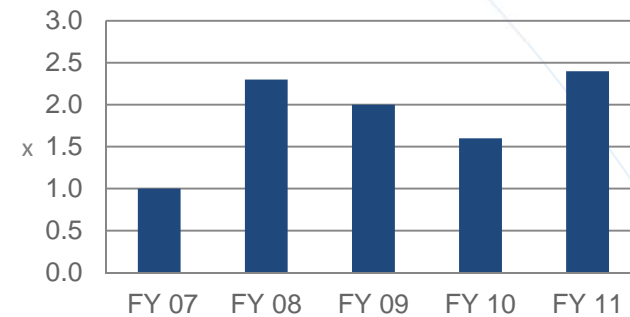
Strong financial position



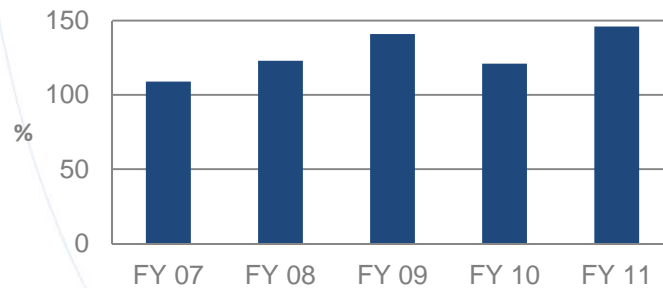
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- Focus on cash across the business
 - deleveraging rapidly
 - supporting future growth opportunities
- Total net debt at 31.3.11 £729m
- Net debt/ EBITDA 2.4x
 - tracking to below 2.0x by 31.3.12
- Cash conversion rate > 100%

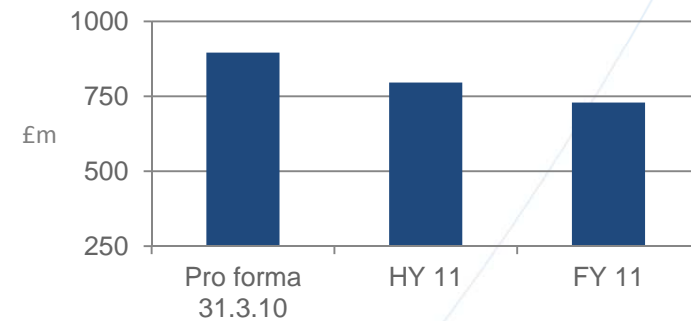
Net debt/EBITDA (KPI)



Cash conversion (KPI)



Total net debt

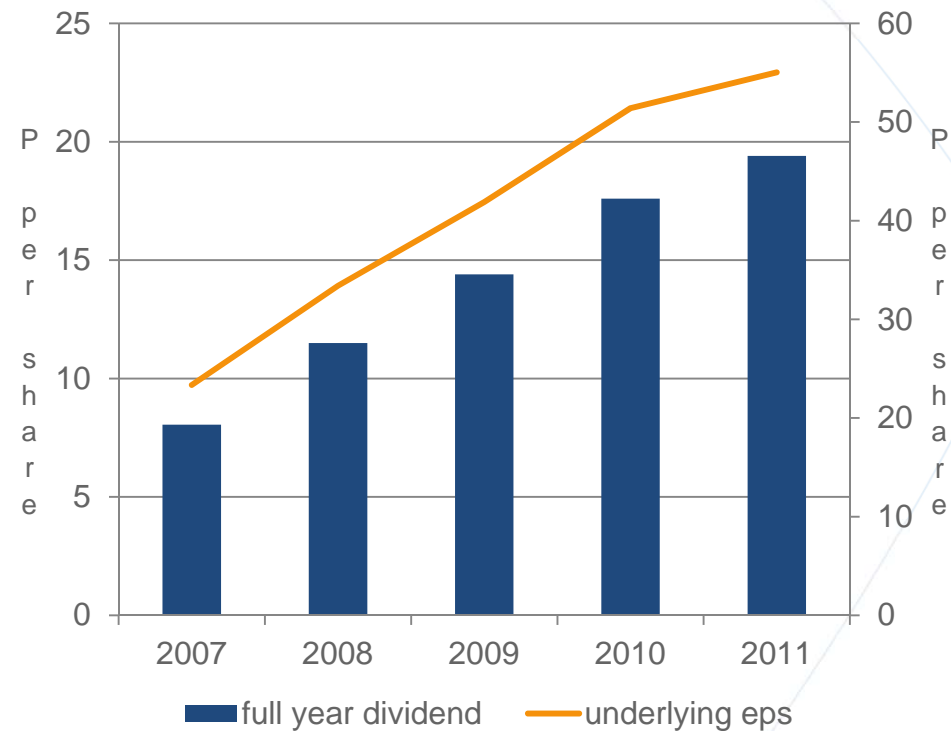


Delivering value for shareholders

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- Board's confidence in future prospects of the Group reflected in
 - 10% increase in full year dividend for 2010/11
 - 7% increase in full year underlying EPS for 2010/11
- Policy to maintain dividend cover of between 2.5x and 3x
- Total 5 year shareholder return 99% compared to 19% for FTSE 250





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Supporting future growth

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Our business model

A unique combination

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- Key differentiators – what sets us apart



- Core business principles
 - light touch corporate centre
 - devolved power to customer facing businesses
 - strong financial controls
 - consistent focus on cash to support growth
 - achieve operational excellence
- Specific customer characteristics
 - Government departments, public bodies or large private companies who
 - own strategically important assets
 - operate in highly regulated markets
 - require long-term engineering solutions

Our business model

Well positioned in current environment



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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 for these market conditions

- detailed knowledge and understanding of our customers' businesses and operational requirements
- unrivalled scale of resource, experience and depth of knowledge

Our selected growth routes



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- Controlling risk by sticking to what we know
- Building on our strengths, reputation and track record we will seek to
 - grow existing contracts
 - grow existing customers
 - grow new customers
- We will not provide new services to new customers in new geographies

Grow – existing contracts



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- We have a number of large, long-term contracts
 - We can use existing contract structures to offer a wider range of services and **deliver more within each contract**
 - VT acquisition gives us a **broader range of skills and capabilities**
 - **Efficiencies** generated by doing more within one contract
 - Our understanding of **outputs and availability** is crucial
- ToBA – to 2025
 - contract contains mechanisms for add-on services to increase scope
 - these mechanisms also provide for gain share
 - RSME – to 2037
 - capacity to deliver more tri-service training and training support
 - experience and track record of delivering high quality, comprehensive training solutions
 - opportunities to benefit from our role as integrator of training design, delivery, support and management
 - consolidation of REME and RSME
 - development of site capacities to add Defence Training Rationalisation (DTR) fallout

Grow – existing customers



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- We have strong **long-term relationships** with our major customers
 - We have a reputation for **working in partnership** with our customers through the VT acquisition
 - We have enhanced our **strategic importance** to our customers
 - We are able to offer a **broader range of services and solutions**
- Nuclear decommissioning – leveraging capabilities
 - combined capabilities strengthen ability to support Nuclear Decommissioning Authority (NDA)
 - currently execute some of the most challenging decommissioning projects in UK
 - Education and training – offering more
 - developing broader business training capabilities where we currently only offer engineering support
 - assisting local authorities who are seeking to outsource more
 - Successor Submarine Programme – strategic importance
 - increased design role, improving design for through-life-support not ease of manufacture

Grow – new customers



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- We seek to be **leaders** in our chosen markets
 - We can use the success of our current operations to **demonstrate benefits** of outsourced operations to **new customers** in UK and overseas
 - We can build on the **strength of our reputation** and **track record of delivery**
- Emergency Services – management of mobile assets
 - Metropolitan Police have achieved significant savings and improved availability
 - talking to a number of other large police forces, emergency service providers and other operators of large vehicle fleets
 - International naval support
 - demonstrate capabilities in platform design, integration and management services to deliver through-life engineering support in Canada and Australia
 - DAF Trucks
 - building on our strong track record with Volvo, we now operate the DAF Trucks franchise for South Africa
 - International civil contracts
 - significant opportunities with multi-national companies for management of mobile asset support

Future opportunities



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Opportunity	Estimated duration	Estimated start date	Estimated value
Nuclear decommissioning	20 years	2012	c £4bn
Military training	10 years	2013 – 2015	up to £3bn
Total fleet management	10 years	2013 – 2015	up to £2bn
Defence infrastructure	5 + 5 years	2012 – 2014	c £5.5bn
Management of mobile assets	10 years	2011	c £1bn
Submarine fleet support, refit, life extension and disposal	15 years	2012 - 2017	c £3bn
Education and training	5 years	2012	c £2bn

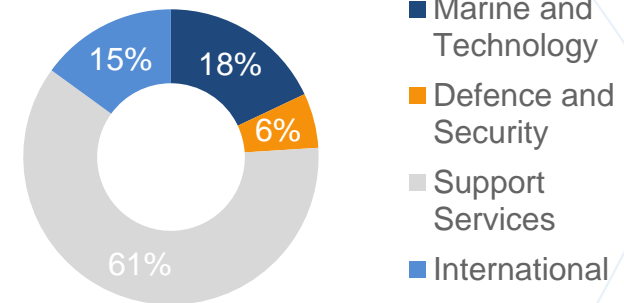


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Bid pipeline - £8.5 billion

- Bid pipeline - £8.5 billion at 31.3.11
- Target is £10bn for Nov 11
- New bids make up 68% of the pipeline
- Currently bidding 23 opportunities in excess of £100m comprising 71% of our pipeline
- Key bids include
 - Equipment support
 - London Fire Brigade Training
 - MFTS fixed wing support
 - Vengeance Long Overhaul Period (Refuelling) (LOP(R))
- Key rebids include
 - Grid Alliance
 - BBC World Service
- Next big rebid in 2014 Next Generation Estate Contracts (NGEC)

Pipeline by division





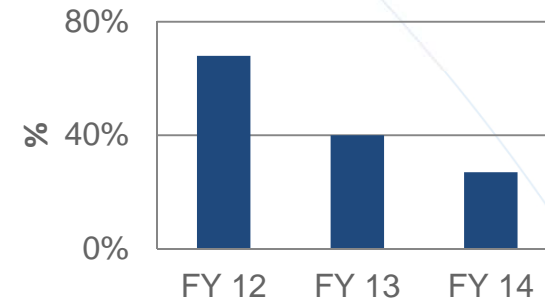
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Order book - £12 billion

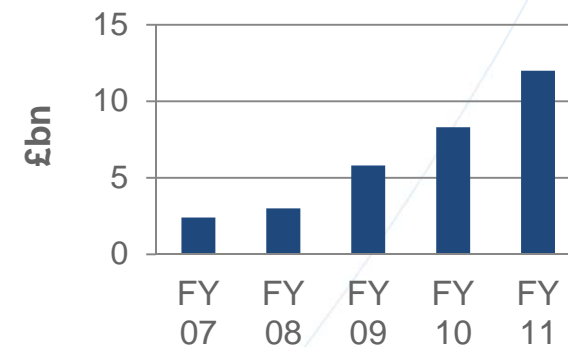
- Order book c £12 billion at 31.3.11
 - excludes sole source forward programmes for submarines and warships c £3bn under the Marine ToBA
 - excludes VT US Indefinite Delivery Indefinite Quantity (IDIQ) contracts
- Key contracts include

- activities under ToBA	£2.4bn
- Queen Elizabeth Class (QEC) carriers	£1.0bn
- Canada	£480m
- Defence infrastructure primes	£490m
- Emergency services	£460m
- Future Strategic Tanker Aircraft (FSTA)	£1.2bn
- Royal School of Military Engineering (RSME)	£2.1bn
- FY12 revenue coverage = 68%
 - excludes Marine and Technology forward programmes as above
 - excludes IDIQ contracts

Order book coverage



Order book growth



A strong platform for the future

The Babcock logo consists of a blue teardrop shape with the word "babcock" written in white lowercase letters inside it.

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- Current market environment is an opportunity not a threat
- Building on leadership positions in long-term growth markets
- Benefitting from enhanced capability post VT acquisition
- We have the right business model
 - demonstrable track record of delivering financial and operational efficiencies
 - strong, long-term relationships with key customers
- Strong financial track record
- Excellent visibility through long-term contracts and agreements, strong order book and growing bid pipeline
- The right people to deliver success

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Questions?

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Appendices

- i. Headline results 2010/11
- ii. Segmental analysis 2010/11
- iii. Divisional information

Appendix i – headline results 2011



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	FY 2010/11 £m	FY 2009/10 £m	Change %
Revenue	2,894.5	1,923.4	+ 50%
Operating profit	286.9	164.7	+ 74%
<i>Operating margin</i>	9.9%	8.6%	
Net finance cost			
group	(50.4)	(18.4)	
JV	(8.3)	(1.1)	
	(58.7)	(19.5)	
Profit before tax	228.2	145.2	+ 57%
<i>Tax</i>	46.8	25.2	
<i>Effective rate</i>	20.5%	19.0%	
Profit after tax	181.4	120.0	+ 51%
eps	55.03p	51.37p	+ 7%
Full year dividend	19.4 p	17.6p	+ 10%

Appendix ii - segmental analysis



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	Revenue		Operating profit		Operating margin	
	FY 2010/11 £m	Pro forma FY 2009/10 £m	FY 2010/11 £m	Pro forma FY 2009/10 £m	FY 2010/11 %	Pro forma FY 2009/10 %
Marine	1,019.5	1,014.6	119.3	119.1	11.7	11.7
Defence and Security						
group	381.9	505.8	54.4	68.3	14.2	13.5
Jv	87.3	109.8	18.8	18.3	21.5	16.7
total	469.2	615.6	73.2	86.6	15.6	14.1
Support Services						
group	895.2	1,004.7	75.3	65.4	8.4	6.5
jv	51.4	40.7	4.3	0.5	8.4	1.2
Total	946.6	1,045.4	79.6	65.9	8.4	6.3
International *	459.2	499.3	27.4	26.6	6.0	5.3
Unallocated	-	-	(12.6)	(16.5)	-	-
Total						
group	2,755.8	3,024.4	263.8	262.9	9.6	8.7
jv	138.7	150.5	23.1	18.8	16.7	12.5
total	2,894.5	3,174.9	286.9	281.7	9.9	8.9
Pre acquisition	324.2		13.7			
Pro forma 2010/11	3,218.7		300.6		9.3	

Appendix iii – divisional information

Marine and Technology - key activities and contracts



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Key activities

- Warships
 - class output management (SSSA)
 - upkeep and design support
 - Queen Elizabeth class aircraft carriers c £1.3 billion to 2018
- Submarines
 - Submarine Enterprise Performance Programme (SEPP)
 - engineering support
- Naval base management
- Naval nuclear infrastructure
 - design, build and support
- High integrity systems
 - weapons handling and launch systems
- Naval communications
- Canadian submarine fleet support – VISSC
 - £225 million over 5 years, option to extend to 15 years c £900 million

	2011 £m	2010 £m	Change %
Revenue	1,019.5	973.8	4.7
Operating profit	119.3	116.5	2.4
Operating margin	11.7%	12.0%	



Appendix iii – divisional information

Defence and Security – key activities and contracts

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Key activities

- Future Strategic Tanker Air (FSTA)
£1.4 billion to 2035 (*joint venture and sub contract to joint venture*)
 - provision of hangar facilities, ICT systems support
- Military Flying Training Systems (MFTS)
£300 million to 2035 (*joint venture and sub contract to joint venture*)
 - provision of training system, hanger facilities and programme management
- Training
 - RSME £1.5 billion to 2039 (*joint venture and sub contract to joint venture*)
 - REME £20 million pa
 - Flagship £80 million pa
- Aircraft and airfield support £40 million pa
 - Hawk, Hercules
 - Valley, Linton on Ouse
- Fleet management
 - White fleet £100 million pa
 - 'C' vehicles £200 million to 2020 (*joint venture*)
- Government Agency c £250 million to 2015

	2011 £m	2010 £m	Change %
Revenue	469.2	87.9	434
Operating profit	73.2	9.9	639
Operating margin	15.6%	11.3%	



Appendix iii – divisional information

Support Services – key activities and contracts

Key activities

- Regional Prime contracts for MoD/Defence Infrastructure Organisation
 - c £200 million pa
- Energy Alliance with National Grid and AMEC
 - £50 million pa to 2012
- BBC World Service
 - £30 million pa
- Metropolitan Police fleet maintenance
 - £20 million pa to 2016
- Apprentice training - including BMW, VW Group, Network Rail
 - c £20 million total value of contracts
- Schools improvement - Surrey and Waltham Forest
 - c £20 million total value of contracts
- Support to EDF AGR power stations
 - c £40 million pa

	2011 £m	2010 £m	Change %
Revenue	946.6	687.5	38
Operating profit	79.6	35.8	122
Operating margin	8.4%	5.2%	



Appendix iii – divisional information

International – key activities and contracts



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Key activities

South Africa

- Volvo construction equipment and other vehicle franchises
- Eskom power generation support
- Construction and maintenance of high voltage power networks

United States

- Base and logistics support
- Fixed and rotor wing aircraft maintenance
- Communications infrastructure integration

Middle East

- Co-ordinating office, identifying and evaluating opportunities for other divisions
- Royal Oman Air Force

	2011 £m	2010 £m	Change %
Revenue	459.2	174.2	164
Operating profit	27.4	10.8	154
Operating margin	6%	6.2%	



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