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Half Year Results

for the six months ended 30 September 2012

6 November 2012

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Agenda

- Introduction — Peter Rogers
- Financial and operational review — Bill Tame
- Looking forward — Peter Rogers
  - *building long-term growth*
- Questions — Peter Rogers, Bill Tame, Archie Bethel, John Davies, Kevin Thomas

Continuing to deliver

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- Strong first half results
- Successful focus on our strategy
  - creating opportunities for long-term growth
- Continuing track record of growth
  - + 6% revenue
    - + 7.3% excluding impact of FX
  - + 12% operating profit
    - + 13.3% excluding impact of FX
- Delivering value for shareholders
  - + 14% EPS
  - + 10.5% interim dividend 6.30p

Our strategy

- Market leading positions
- Preferred customer characteristics
- Customer focused and long-term relationships
- Integrated engineering and technical expertise
- Balancing risk and reward
- Excellent health and safety record

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Financial and operational review

Bill Tame

Group Finance Director

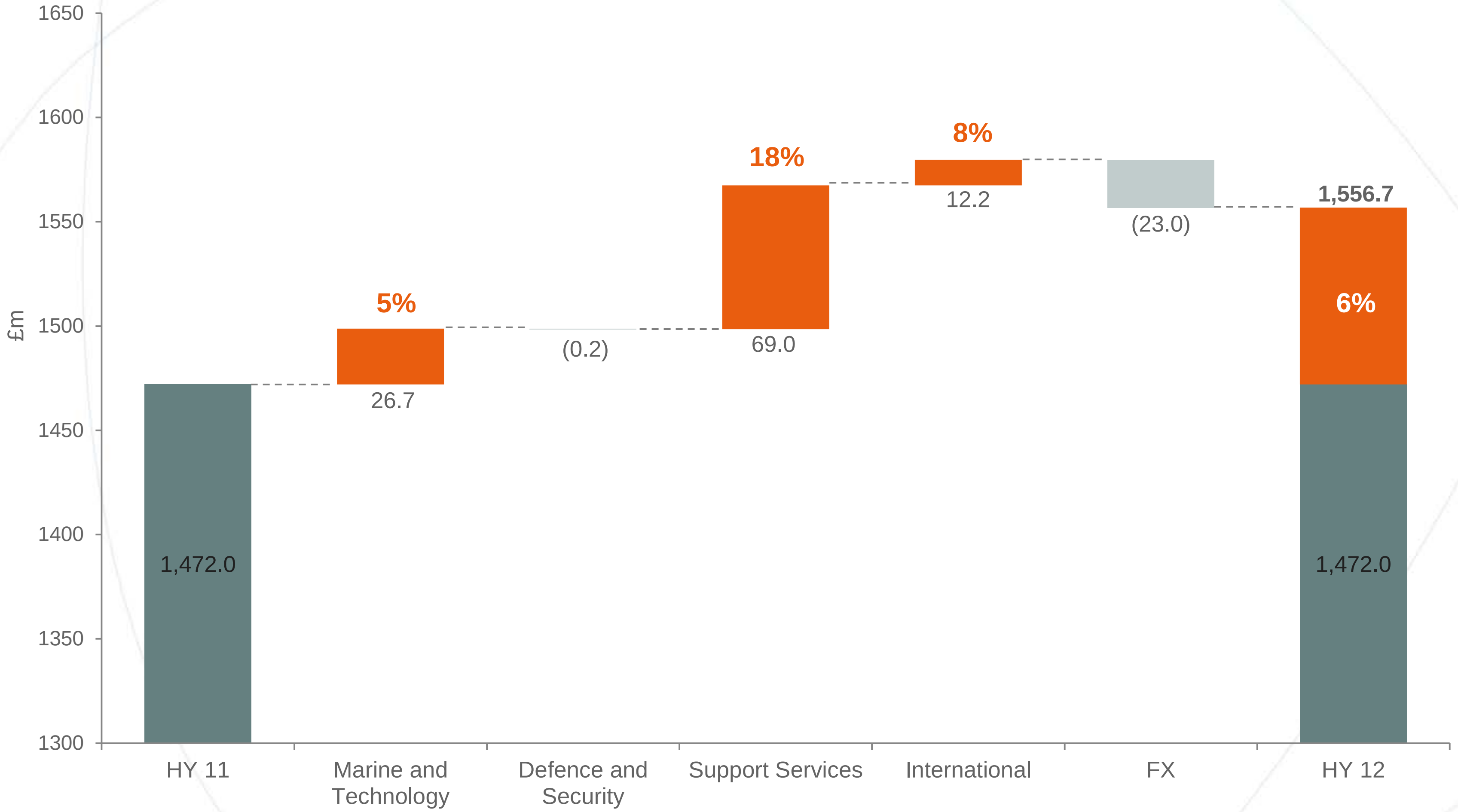
Financial highlights

- Organic growth in top and bottom line
- Margins enhanced by JV income and International division
- Group finance cost down c £4m
- JV finance cost increased in line with PFI debt drawdown
- EPS up 14%

	H1 12/13 £m	H1 11/12 £m	Change %
Revenue	**1,556.7**	1,472.0	+ 6%
Operating profit	**174.0**	155.2	+ 12%
Operating margin	***11.2%***	*10.5%*	
Net finance cost			
Group	**(14.5)**	(18.4)	
JV	**(16.8)**	(10.5)	
	(31.3)	(28.9)	
Profit before tax	**142.7**	126.3	+ 13%
EPS	**32.40p**	28.52p	+ 14%
Interim dividend	**6.30p**	5.70p	+ 10.5%

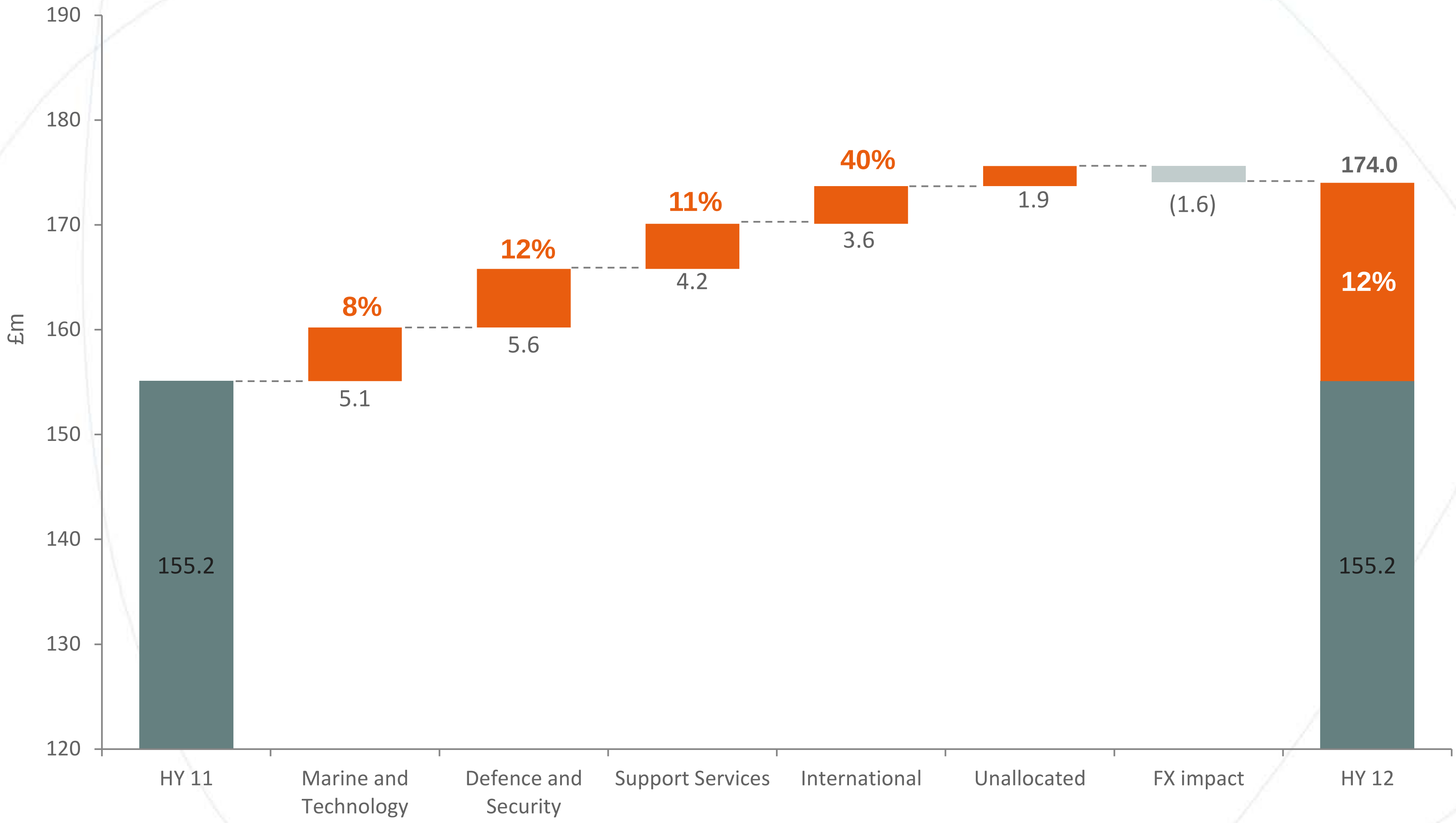
* Underlying – see Appendix 1

Revenue growth*



* Underlying – see Appendix 1

Operating profit growth*



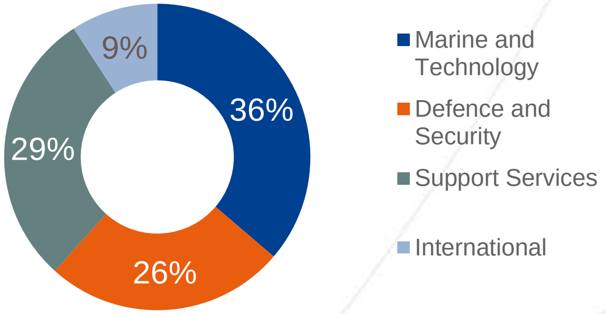
* Underlying – see Appendix 1

Marine and Technology

- Good revenue growth
  - 5% organic in line with expectations
- International revenue expanding
  - good performance in home and export markets
  - c 19% of division
  - well placed for emerging opportunities
- UK operations remain strong
  - ToBA cost savings running ahead of plan
- Operating margin stable
  - international key contributor
  - delivery of savings under ToBA
- Outlook for FY 13
  - mid single digit revenue growth
  - margin broadly similar

	H1 12/13 £m	H1 11/12 £m	Change %
Revenue	**564.3**	538.0	+ 5%
Operating profit	**72.5**	67.4	+ 8%
Operating margin	**12.8%**	12.5%	

Revenue by division



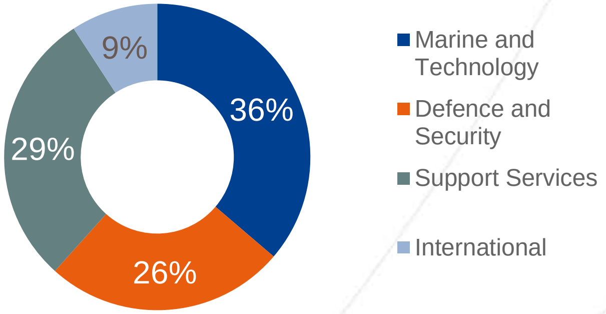
Defence and Security

- Now includes Defence Infrastructure
- Revenue broadly flat
  - scope increases within regional primes and increased volumes in vehicle fleet contracts
  - some reductions in naval training contracts
- Core contracts performing well
  - extensions won at Bovington and RAF Cosford
  - Air Tanker sub contract back to steady state margin
- Strong growth in operating profit and margin driven by
  - Air Tanker JV delivery milestones
  - Air training contract performance
- Outlook for FY 13
  - small step up in margin
  - revenue in line with H1

	H1 12/13 £m	H1 11/12 £m *	Change %
Revenue	**395.4**	397.3	-
Operating profit	**51.4**	45.8	+ 12%
Operating margin	**13.0%**	11.5%	

* Restated to reflect divisional reorganisation

Revenue by division



Support Services

- 18% organic revenue growth
  - start up of contracts won in H2 last year
    - Dounreay, Devon schools, London Fire Brigade
  - strong growth in Mobile Asset business (+65%)
  - construction milestones reached in BSF JVs

- Operating profit growth from
  - Nuclear contract performance and synergy benefits
  - Infrastructure - milestone achievement in BSF JVs

- Some margin reduction as expected
  - dilution from project start up phases

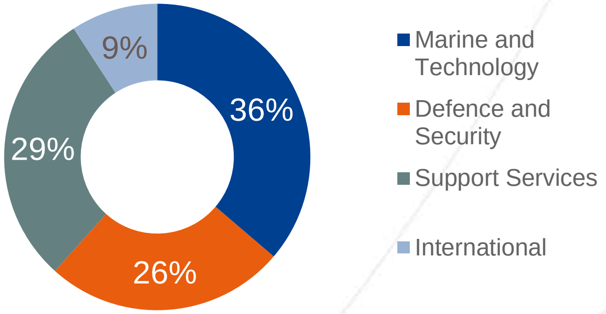
- Outlook for FY 13
  - mid teen revenue growth
  - margins stable

	H1 12/13 £m	H1 11/12 £m *	Change %
Revenue	**453.9**	385.2	+ 18%
Operating profit	**42.1**	37.9	+ 11%

Operating margin	**9.3%**	9.8%

* Restated to reflect divisional reorganisation

Revenue by division

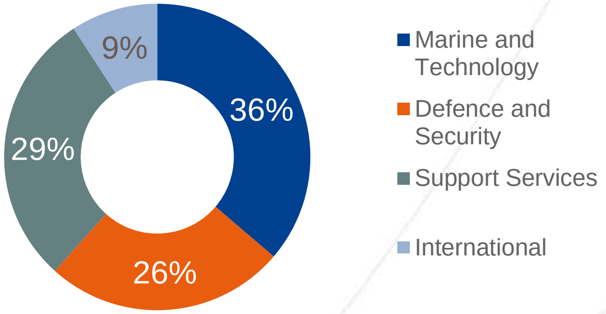


International

- 8% organic revenue growth excluding FX impact
  - record sales of Volvo equipment
  - strong demand for crane hire
  - held back by power generation support deferral
- Strong growth in operating profit and margins
  - 40% excluding FX impact
  - driven by crane hire margin and operational gearing
- Outlook for FY 13
  - continued impact of weak Rand
  - global economic headwinds could impact H2 demand for equipment
  - power expected to be better
  - crane demand expected to remain high
  - margin to remain stable

	H1 12/13 £m	H1 11/12 £m	Change %
Revenue	**143.1**	151.5	- 6%
Operating profit	**11.1**	9.1	+ 22%
Operating margin	**7.8%**	6.0%	

Revenue by division



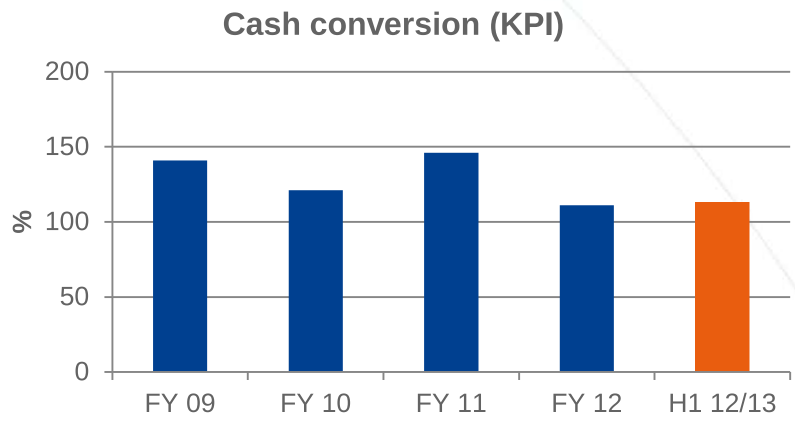
Cash flow

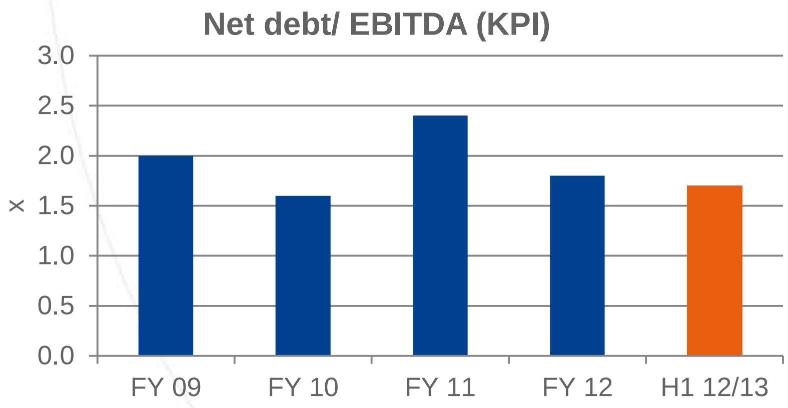
- Cash conversion 113%
- Working capital outflow
  - advance payment unwind and pension payments
- Capital spending
  - IT project ongoing in H1, completing in H2
  - facility upgrades in Marine ongoing
  - FY 13 spend c £50m
- Interest and tax profile broadly similar in H2
- Investment in PFI equity of c £30m in H2

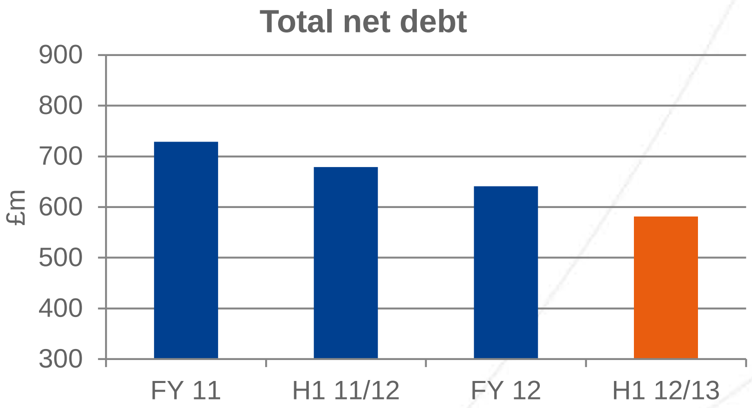
	H1 12/13 £m	H1 11/12 £m	FY 12 £m
Operating profit	**143.8**	137.7	290.2
Non-cash items/ exceptionals	**24.9**	23.5	47.1
Working capital	**(26.6)**	(3.5)	(76.6)
Cash from operations	**142.1**	157.7	260.7
Cash conversion	***113%***	*117%*	*111%*
Net capital expenditure	**(26.0)**	(22.3)	(46.0)
Interest	**(14.7)**	(20.1)	(37.1)
Tax	**(24.5)**	(16.3)	(28.0)
Free cash flow	**76.9**	99.0	149.6
Acquisitions/disposals /JV	**47.3**	0.7	10.8
Dividends	**(62.4)**	(51.9)	(73.5)
Other	**(1.8)**	2.4	1.0
Net cash flow	**60.0**	50.2	87.9

Deleveraging

- Net debt closed at £581.1m down from £641.1m
  - net debt/ EBITDA 1.7 x
- Strong cash conversion at 113%
- Expect debt to be approaching 1.5 x net debt/ EBITDA by March 2013







Pensions summary

- Asset returns barely positive
- Bond yields declined further to 4.43%
  - March 2012: 4.85%
- Deficit back to September 2011 levels
- Not expecting a return to a more benign environment in the medium-term

Balance sheet	H1 12/13 £m	FY 12 £m	H1 11/12 £m
Assets	**2,876.9**	2,782.7	2,472.8
Liabilities	**(3,194.8)**	(3,048.6)	(2,790.2)
Deficit	**(317.9)**	(265.9)	(317.4)

Income statement	Est FY 13 £m	H1 12/13 £m	FY 12 £m
Service cost	(45.0)	**(22.5)**	(44.5)
Expected return on assets	168.4	**84.2**	172.1
Interest on obligations	(137.2)	**(68.6)**	(145.7)
Net charge to operating profit	(13.8)	**(6.9)**	(18.1)

Pro-forma impact of IAS19 revision
A reminder

- Effective FY14
- No balance sheet impact
- No cash impact
  - a permanent timing difference between profit and cash
- Pro forma
  - H1 12/13 EPS reduction 4.5p
  - FY 13 EPS reduction 9.2p

Income statement	FY 12				FY 13		
	Current	New	Δ		Current	New	Δ
Current service cost	44	44	Nil		46	46	Nil
Interest on obligation	146				137		
Return on investments based on portfolio	(172)				(168)		
Interest on net deficit		13				13	
Net finance charge	(26)	13	39		(31)	13	44
Net pension charge	18	57	39		15	59	44
Tax	(4)	(15)			(3)	(14)	
Post tax charge	14	42	28		12	45	33
Earnings per share			(7.8)				(9.2)

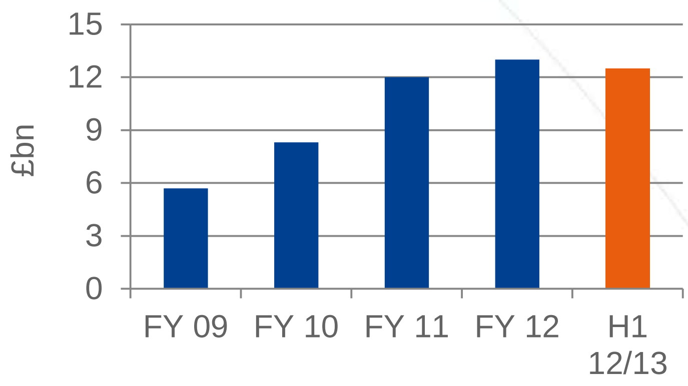
Pro-forma impact of IAS19 revision
Divisional margins

	Operating profit / operating margin			
	Sept 2012 Reported	Sept 2012 Restated	Mar 2012 Reported	Mar 2012 Restated
Marine and Technology £m / %	72.5 / 12.8%	62.4 / 11.1%	135.1 / 12.5%	122.3 / 11.3%
Defence and Security £m / %	51.4 / 13.0%	50.4 / 12.7%	98.3 / 10.9%	95.9 / 10.6%
Support Services £m / %	42.1 / 9.3%	37.8 / 8.3%	88.0 / 10.9%	77.3 / 9.6%
International £m / %	11.1 / 7.8%	11.1 / 7.8%	19.3 / 6.9%	19.3 / 6.9%
Unallocated £m	(3.1)	(3.3)	(11.7)	(12.0)
Group £m / %	174.0 / 11.2%	158.4 / 10.2%	329.0 / 10.7%	302.8 / 9.9%

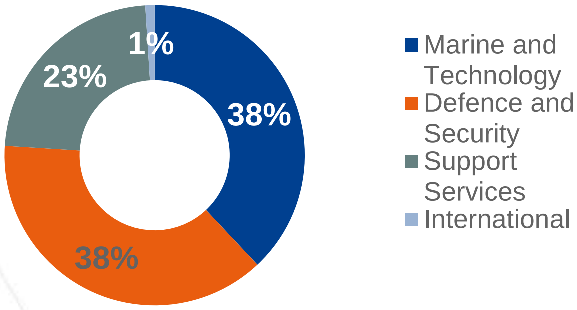
Order book

- Order book c £12.5bn
- c 90% revenue coverage for FY 13
  - >50% revenue visibility for FY 14
  - excludes Marine and Technology forward programmes and South Africa
- Regular flow of “book and burn” contracts into order book

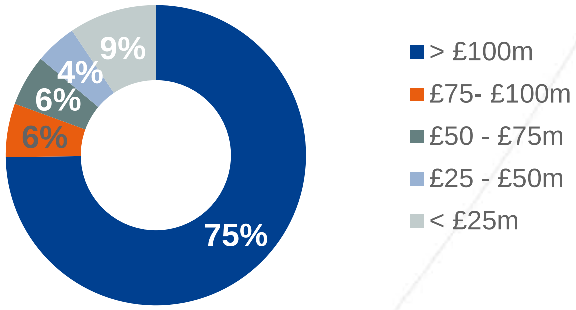
Order book growth



Order book by division



Order book by value



Continuing to deliver

- Good organic growth in revenue and earnings
- Strong cash flow and debt reduction
- Solid order book
- For FY 13
  - some enhancement to H1 margin
  - revenue growth similar to H1

Looking forward

Building long-term growth

Peter Rogers
Chief Executive

Positive trading environment

- No change to economic pressures or financial constraints being experienced by a number of our customers

- UK MoD achieved a ‘balanced budget’
  - focus on building platform for Future Force 2020
  - whilst meeting current operational requirements

- UK civil customers
  - seeking more efficient delivery of key support services
  - require knowledge, experience and skills

- International opportunities being driven by changing market environments and a requirement to do things differently

- Babcock well positioned to realise opportunities

Supporting long-term growth

- Established and recognised market leading positions
  - essential for supporting long-term growth plans
  - built through a series of well-executed acquisitions and significant contract wins over the past 10 years
- Unrivalled skills, knowledge and experience across the Group
  - track record of delivering financial and operational efficiencies
  - helping customers understand what can be achieved
- Focus on delivering long-term support solutions for large, complex programmes or projects which
  - involve extended bidding periods
  - provide maximum opportunities for driving efficiency and availability
  - support our strategic objectives

Building a nuclear business
2006 - today

- Six acquisitions 2006 – 2010
  - to create the largest specialist nuclear services business in the UK
  - unrivalled experience as site licensee and operator
  - significant contracts and involvement on major programmes
- Nuclear workforce of 5,700 skilled employees (civil and military)
- Strategic partnerships established to support long-term ambitions
- Excellent reputation now recognised by UK government and international partners
- Strong platform for future opportunities
  - UK and overseas

Nuclear new build - UK

Supporting Hitachi

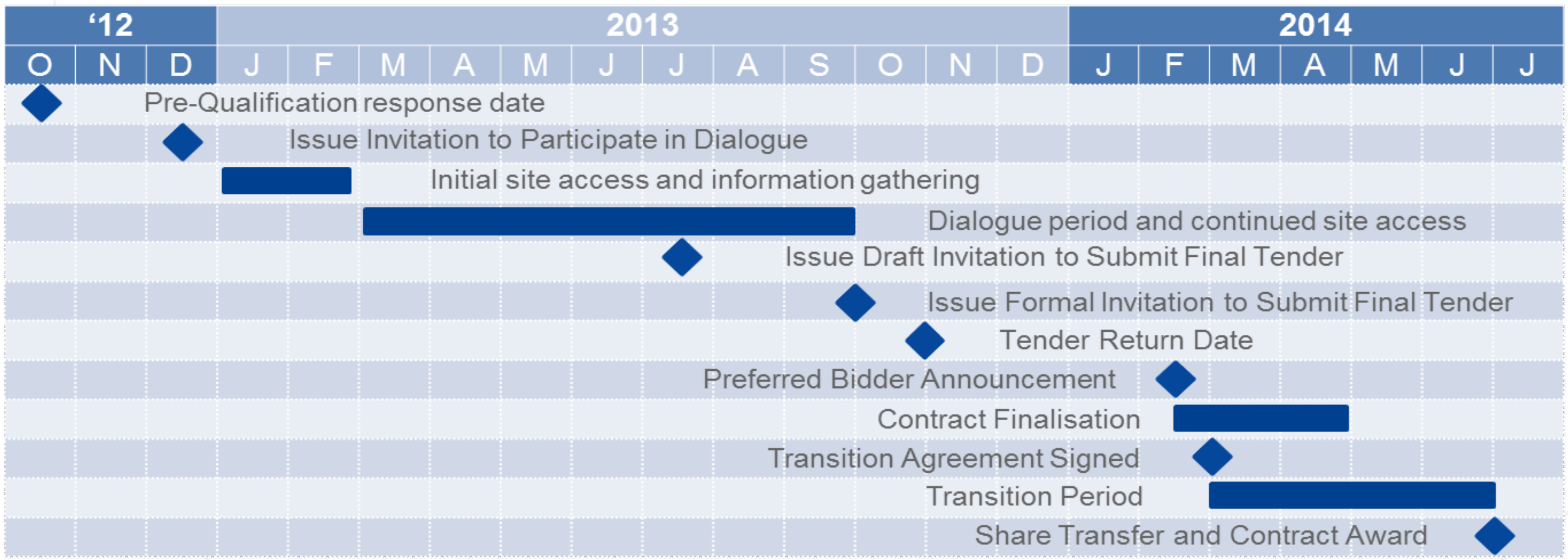
- MoUs announced 30 October 2012
  - exploring how we can support Hitachi plan and deliver the programme
  - sites at Wylfa and Oldbury
  - first reactors expected in the first half of 2020s
- Babcock expertise
  - knowledge of regulatory environment
  - modular build
  - engineering training

Supporting EDF

- Teaming with Boccard (part of Areva's current supply chain)
  - sites at Hinkley Point C and Sizewell C
- Complementary expertise for 'Balance of Nuclear Island' mechanical installation
- Two stage bidding process
  - first preferred bidder announcement not expected until H2 2013/14

Nuclear decommissioning
Magnox and Research

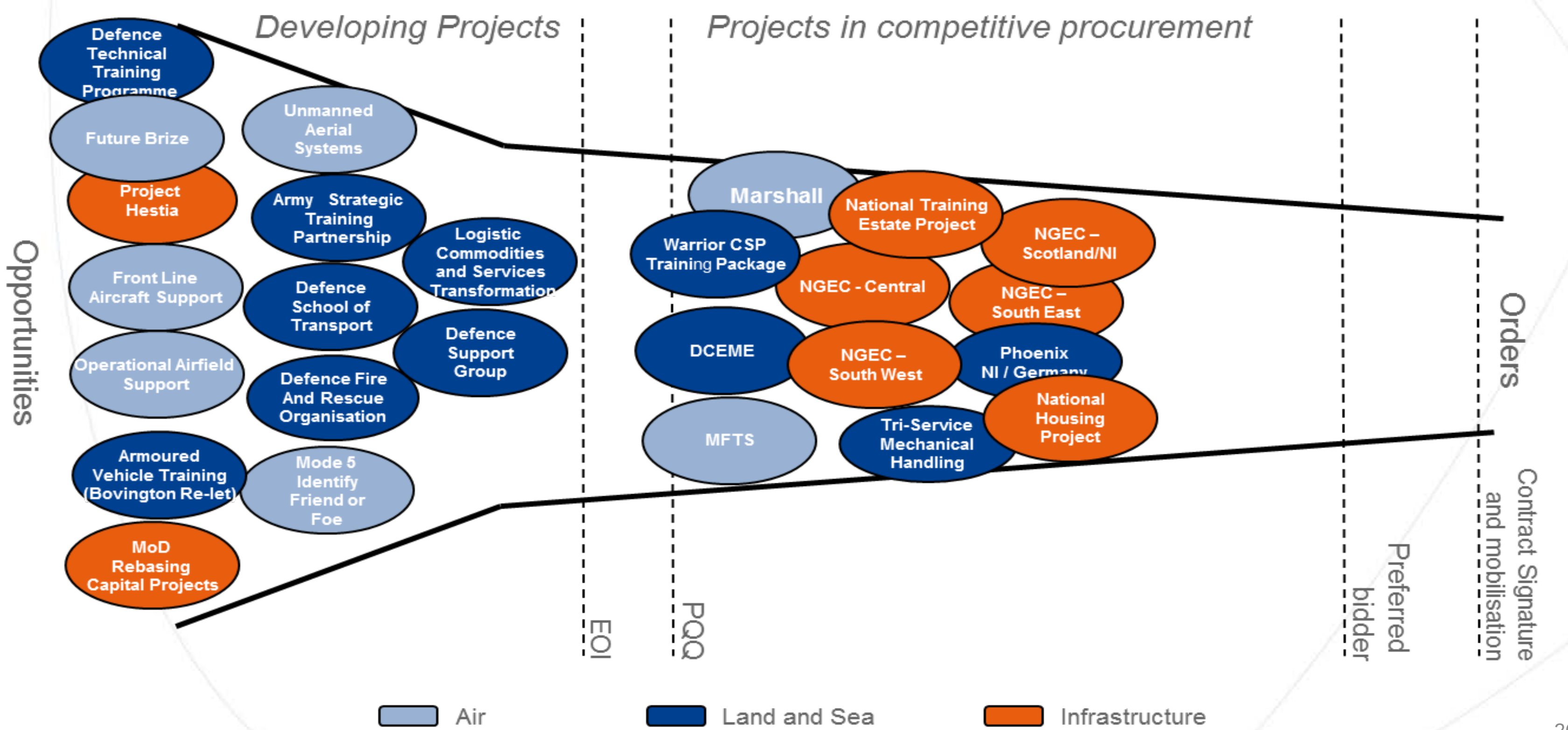
- Established position at Sellafield and Dounreay
- Extended bidding programmes required for high value, complex programme solution
- Bidding in partnership with Fluor
  - proven expertise in US decommissioning
- Building on experience of Dounreay bid



Source: NDA

Major defence outsourcing opportunities
Making progress

- £billions opportunities currently being progressed by DIO and DE&S
- Timetables have slipped – progress is being made
- New opportunities now coming into bid pipeline



Building an international presence

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Canada
- Economically stable, National Shipbuilding Procurement Strategy – threat from increasing sea borders, C$140bn investment in mining industry over next 5 years

Babcock progress
- Established position on submarine programme
- Identified opportunities for Nuclear decommissioning, mobile asset management and military training

Middle East
- Arab Spring driving requirement for non oil-based economy and youth training programmes

Babcock progress
- Identified two partners to support entry into new markets
- Key opportunities – military equipment support and engineering training

Brazil
- Economically stable, rapid growth - world's 6th largest economy, underinvestment in industry, shortfall in vocational training
- Government pushing through privatisation

Babcock progress
- Defence equipment support and naval infrastructure management – potential partner identified and progressing discussions
- Civil infrastructure, training and mobile asset support – potential market entry acquisition identified

Australia
- Economically stable, serious short comings in naval repair, maintenance and support, seeking strength and self-reliance in Asia Pacific

Babcock progress
- Established position on WHLS for Collins class submarines, Rizzo and Coles Review support UK availability model, JV established for Anzac support contract
- Considering defence infrastructure opportunities

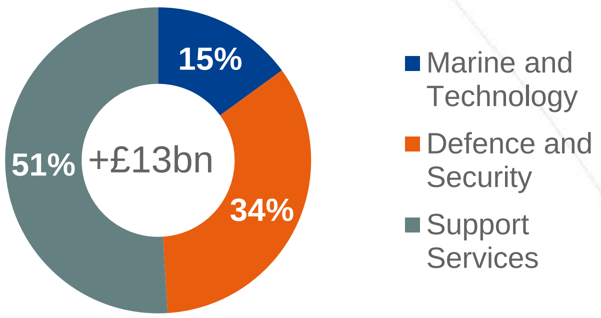
Bid pipeline - first half

- Some movement during H1 as bidding programmes delayed
  - NGEC
  - Sellafield decommissioning

- Bids won include
  - Strategic Weapons System support - Coulport
  - Scottish Power - Beauly Denny
  - RAF Cosford and Bovington (extensions)
  - Devonport New Zealand (rebid)

- Bids moved into pipeline from tracking include
  - Magnox and Research decommissioning
  - HMS Ocean and Albion
  - Mobile Assets – new opportunities

Bid pipeline by division

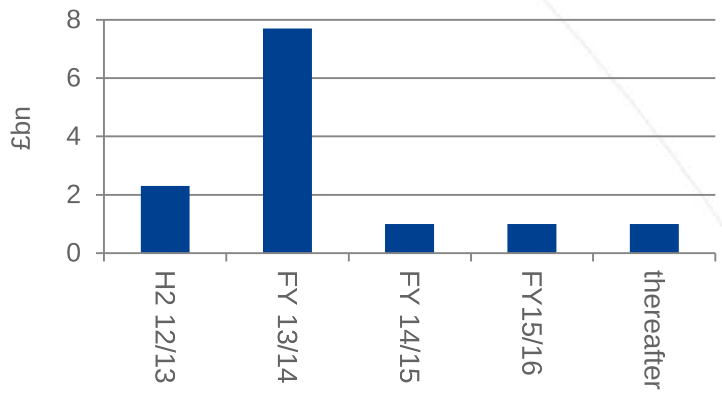


* Restated to reflect divisional reorganisation

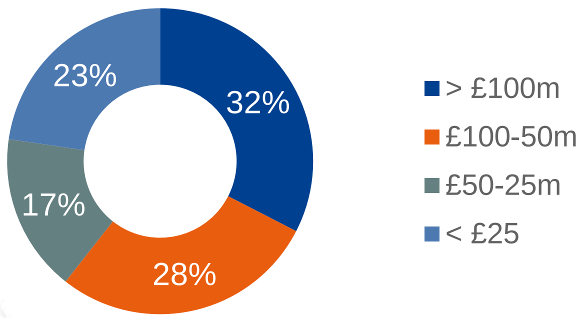
Bid pipeline

- Bid pipeline in excess of £13bn
  - increased from £9.5bn during H1
  - new bids = 78% of pipeline
  - bids over £100m = 67% of pipeline
- £2.3bn to be announced during H2
- Significant opportunities further out in tracking

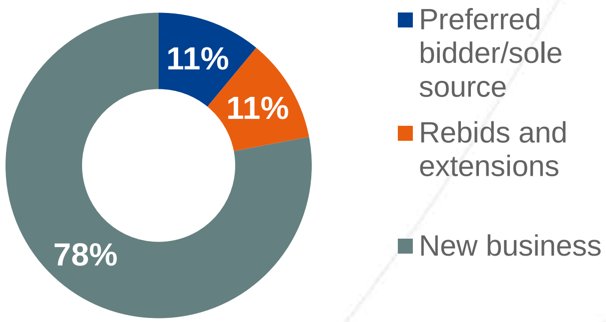
Pipeline by period



H2 pipeline by contract size



Pipeline by contract type



A strong platform for the future

- Current market continues to create medium and long-term opportunities
  - UK and overseas

- 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
  - track record of delivering efficiencies

- Excellent visibility from strong order book and bid pipeline

- The Board remains confident of meeting its expectations for this year and delivering strong progress on last year trusted to deliver ™

Questions?

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Appendix

Appendix 1

Statutory to underlying reconciliation

	Continuing operations – statutory £m	JV and associates Revenue and operating profit £m	JV and associates Finance costs £m	JV and associates Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Exceptional items £m	Continuing operations – underlying £m
30 September '12									
Revenue	1,450.3	106.4							1,556.7
Operating profit	108.8	10.6			19.6	32.4		2.6	174.0
Share of profit from JV	6.7	(10.6)	16.8	2.7	(18.7)	3.1			-
Investment income	0.9				(0.9)				-
Net finance costs	(14.5)		(16.8)						(31.3)
Profit before tax	101.9	-	-	2.7	-	35.5	-	2.6	142.7
Tax	(10.9)			(2.7)		(8.5)	(1.3)	(0.7)	(24.1)
Profit after tax	91.0	-	-	-	-	27.0	(1.3)	1.9	118.6
30 September '11									
Revenue	1,383.9	88.1							1,472.0
Operating profit	94.1	4.6			12.9	38.7		4.9	155.2
Share of profit from JV	0.8	(4.6)	10.5	1.8	(11.6)	3.1			-
Investment income	1.3				(1.3)				-
Net finance costs	(18.4)		(10.5)						(28.9)
Profit before tax	77.8	-	-	1.8	-	41.8	-	4.9	126.3
Tax	(6.7)			(1.8)		(10.9)	(2.7)	(1.3)	(23.4)
Profit after tax	71.1	-	-	-	-	30.9	(2.7)	3.6	102.9

Appendix 2

Segmental analysis

	Revenue		Operating profit		Operating margin	
	H1 12/13 £m	H1 11/12 £m	H1 12/13 £m	H1 11/12 £m	H1 12/13 %	H1 11/12 %
Marine and Technology	**564.3**	538.0	**72.5**	67.4	**12.8%**	12.5%
Defence and Security						
group	**339.9**	338.6	**29.2**	33.4	**8.6%**	9.9%
JV	**55.5**	58.7	**22.2**	12.4	**40.0%**	21.1%
total	**395.4**	397.3	**51.4**	45.8	**13.0%**	11.5%
Support Services						
group	**403.0**	355.8	**35.0**	34.1	**8.7%**	9.6%
JV	**50.9**	29.4	**7.1**	3.8	**13.9%**	12.9%
total	**453.9**	385.2	**42.1**	37.9	**9.3%**	9.8%
International	**143.1**	151.5	**11.1**	9.1	**7.8%**	6.0%
Unallocated	**-**	-	**(3.1)**	(5.0)		
Total						
group	**1,450.3**	1,383.9	**144.7**	139.0	**10.0%**	10.0%
JV	**106.4**	88.1	**29.3**	16.2	**27.5%**	18.4%
total	**1,556.7**	1,472.0	**174.0**	155.2	**11.2%**	10.5%

Appendix 3

Defined benefit pensions - triennial valuations

	Devonport	Rosyth	BIG	Others
Last valuation date	31 March 2011	31 March 2009	31 March 2010	Various
Next valuation date	31 March 2014	31 March 2012	31 March 2013	Various
Surplus/(deficit) £m	(108.0)	(37.0)	(44.0)	(28.0)
Level of funding	90%	90%	92%	91%
Annual cash contribution from				
• formal valuation £m	34.2	12.3	36.8	9.0
• longevity swap funding £m	1.8	2.5	0.7	
• prepayment £m	(20.0)			
Total annual cash contribution £m	16.0	14.8	37.5	9.0

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