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Transcript: Cavendish Nuclear teach-in event

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Director of Investor Relations

Welcome everybody to the Cavendish Nuclear teach-in here at the London Stock Exchange. Also, welcome to those of you who are joining us online live direct. My name is Andrew Gollan. I'm Director of Investor Relations at Babcock. So just a few introductory words for today's session from me. This is going to be the first in what we intend is a series of smaller teach-in events across the Babcock businesses and activities. Many of you'll know that we are a business that has evolved quite considerably over the last few years, so it's time to teach you more. The objective really is to broaden and deepen the market's understanding of Babcock and what we do. And at these events, we're going to outline things like our strategy, our key drivers. We'll showcase our capabilities and of course introduce you to more of the management team across the group.

Ultimately, the point of these things is to demonstrate how we create value across Babcock. Today's focus is on the Cavendish Nuclear business, which incorporates our civil nuclear activities. Cavendish is 7% of the Group's revenues, so quite small, but as you will hear today, it is a business that has very significant growth opportunities. You'll shortly hear presentations from the nuclear leadership team. First from Harry Holt, who is Chief Executive of the Nuclear Sector. Secondly, Mick Gornall, who is Managing Director of Cavendish Nuclear. And finally, James Ewence, who is Director of our Clean Energy business. In terms of timings, the presentations should last about 40 to 45 minutes, so that will give us plenty of time for questions and answers in the room before we wrap up at 5:30pm. We'll start the main event, however, with some opening remarks from Babcock Chief Executive, David Lockwood. David.

David Lockwood

Chief Executive Officer

Thank you. So, they haven't given me a pin, so I've got to stand still like this, sort of no jazz hands or anything. I asked Andrew for a script, and he said, "You don't need a script. Your job is to inject energy into the room." Which given that we are talking about, nuclear seemed a bit of a dodgy sort of intro, but here we go, energy into the room. So, when David and I arrived five years ago, some of the biggest write-offs were in civil nuclear. And I remember two years in, we described civil nuclear and Cavendish as a free bet to a game we thought was going to come. We weren't sure when, and we used to say all the tech looked really exciting and the people were fantastic and just the numbers were really dull.

But now the big event has come. civil nuclear is making a tremendous comeback in new build; we are in operate; decommissioning is moving forward; the recapitalisation of the nuclear fleet and everything that goes with that where Cavendish also play. That patience we've had whilst Mick and the team have rebuilt the business is starting to really pay off. And that kind of shows something about in general about Babcock is we are a long cycle business. So, you have to be patient when it's not so good because when it comes back, it comes back long and strong. And I think that's what you're going to see throughout this presentation. A great business with tremendous opportunities, with actually a very powerful management team. And as we go underneath, a very strong team underneath as well, more than capable of winning and delivering these major opportunities. So, you are all fairly bored with me doing this every six months. I'm not going to stir up anymore because Harry is a super presenter, so he's going to take over. Harry.

Harry Holt

CEO, Nuclear

Thank you, David. Nice set up there. So, I'm Harry Holt. I am the CEO of Babcock's nuclear sector. I've been in Babcock for just under two years, but before I joined the company, I had a career of two halves. So, I was an officer in the British Army for over 20 years leading men and women on combat operations. And then I spent over 10 years at Rolls-Royce, the majority of that time on their executive leadership team in a number of senior functional and P&L leadership roles, most notably as president of Rolls-Royce's nuclear division, during which time I actually initiated and established Rolls-Royce's Small Modular Reactor (SMR) business.

Now, a number of you will remember me from the capital markets day, which we did in February of last year. And you may remember me saying what a privilege it was to be in this role during the UK's national recommitment to nuclear power. And it's a privilege not only because of the growth opportunity, what we're all here to talk about this afternoon, but also because of the purpose of what we do. What we do really, really matters. So as David said, today is about our Cavendish business. The Cavendish business addresses the civil nuclear market, and importantly, it also addresses a discrete segment of the defence market, which requires some of Babcock's unique capabilities. But before we dive into Cavendish, I want to make sure that I've orientated you to the nuclear market overall. I've explained where Cavendish fits within the group. And I've also summarized for you what we do at a sector level. And so therefore, I hope

by the end of this afternoon you'll leave with a really clear impression of our position as the UK's largest civil and defence nuclear services provider.

You'll have a better understanding of the really high barriers to entry for our markets. You'll understand the really powerful growth drivers that we have now and into the future, and therefore you'll share our confidence in double-digit growth for Cavendish Nuclear at above Group average margins. So why is the UK, along with lots of other countries, recommitting to nuclear power? Well, it's in response to these three global mega trends. I spoke to them at the capital markets day and in the intervening 15 months, they have only got more rather than less pronounced. First of all, global insecurity. That ultimate duty of government to protect its people, to protect its sovereignty, to protect its interests has never been more important than it is today. We've got multiple global flashpoints, we've got war in Eastern Europe, we have got war in the Middle East, we've got a potential war in the Indian sub-continent, and we've got growing instability in the South China Sea.

And all of that has put an unprecedented focus on our independent nuclear deterrent, the cornerstone of our defence policy, and also the availability of submarines to support that deterrent. And interestingly enough, it's reinforced the rationale behind AUKUS, which is the strategic tripartite agreement between Australia, the US, and the UK, to equip the Australian navy with a nuclear-powered but conventionally armed submarine fleet to project power into the Indo-Pacific.

Second mega trend is climate change. There is now broad consensus that civil nuclear needs to play a key role in our journey to net-zero. And that view has only been reinforced when you consider the energy requirements to unlock the full potential of new technologies such as AI and quantum computing. And the third trend is energy security, a byproduct of the other two. So, an increasingly unstable world that is ravenous for carbon-free energy. It's no surprise that countries are increasingly looking to onshore their energy generation facilities and also to either onshore or guarantee security of the fuel for those facilities. These trends drive our market. None of them are particularly new, but because they are mutually reinforcing, then a movement of one or even two has an exponential effect overall, and that's effectively what we have seen over the last few years. It's almost impossible to imagine any of these trends diminishing over the short to midterm, and that's what gives us such deep confidence of the long-term strength of our market. A market where we are uniquely positioned because as you'll hear more about later on, we support nuclear assets, a whole range of nuclear assets across the entirety of their life cycle from design through build, through operate and maintain, and then finally decommissioning and dismantling.

So where do we sit in the Babcock Group? So, as you know, last year the Babcock Group turned over 4.8 billion across four sectors, aviation, land, marine and nuclear. And at 37% of the group's revenue, that makes us the biggest of the sectors, and it also makes us the UK's largest civil and defence nuclear services provider.

Within the sector, the revenue is heavily weighted towards defence at 87%. The remaining 13% is from the civil nuclear market, but that is the portion that is growing most strongly, and that is the portion that has the most attractive financial characteristics. As I said earlier on, you can see there in the middle pie chart, the Cavendish address is not only the entirety of that civil nuclear segment, but also a discrete part of the defence market where Babcock's capabilities around fissile material handling and decommissioning and waste management are in demand. So, Cavendish itself, and you'll hear more about this from Mick in a moment, last year's financial outturn was £320 million annual revenue, a quarter of that from the defence market and the remainder split evenly between decommissioning and clean energy.

So, what do we do as a sector? Well, we've got a workforce of 11,000 qualified and experienced personnel and they support nuclear assets, whether they be submarines or power plants or nuclear waste or fissile material facilities throughout the entirety of their life cycle. So, in the defence market led by our naval nuclear business, we provide the complex engineering support to the entirety of the Royal Navy's nuclear-powered submarine fleet. And we also manage, operate, upgrade, and refurbish all of the critical infrastructure to support that submarine flotilla.

And we do it all to the very highest standards of quality and safety as stipulated by the nuclear regulator. Also, in the defence market, but addressed by our Cavendish business, we do two really important things. So, we provide the engineering support to AWE, that's the atomic weapons establishment in the sustainment and production of the deterrent weapon, and we provide support to the Submarine Delivery Agency (SDA) in the decommissioning and dismantling of legacy submarines. Then in the clean energy business, in the civil market, we do three things. You'll hear much more about this in a moment. We support EDF and the entirety of the current fleet of nuclear reactors here in the UK.

We're heavily involved in nuclear new build at both the large gigawatt scale and also at the small modular reactor level. Then finally, we are involved in nuclear conversion, nuclear fuel conversion and production facilities. Then last, but by no means least our civil decommissioning activity to deal with legacy facilities and waste here in the UK and increasingly internationally. So, the last point I want to make off this slide is really just to highlight the synergies that we get by addressing both of these markets through one integrated and coherent sector. And those synergies are broadly fourfold. So, first of all, people. So, if you are a nuclear engineer or a nuclear welder or a nuclear safety case specialist, you are largely indifferent to whether you're doing that work in the civil or the defence market. So, our ability to veer and haul a workforce of that size across both markets is very powerful.

We have a very deep-seated knowledge and understanding of the industry and in particular deep understanding of the regulator. Both markets are understandably heavily regulated. We know our customers very well. We're intimate with them because we deal with their assets across the full asset lifecycle. So for example, the dismantling work that we're doing up in Rosyth on HMS Swiftsure, one of the old nuclear-powered submarines, requires us to have a good understanding of the Nuclear Safety Commissioning Authority because the waste from Swiftsure is going to end up with the Nuclear Decommissioning Authority (NDA).

And then lastly, we have a number of transferable capabilities, engineering I've spoken about, but complex project delivery and advanced manufacture are another couple of examples. So, if you have the wherewithal to make high integrity modules for the nuclear market, they can be deployed as easily into nuclear submarines as they can into SMRs. So, before I hand over to Mick Gornall, the MD of our Cavendish business, I just want to play you a short video to bring to life some of what we do in our Cavendish business.

VIDEO PLAYS

Mick Gornall

Managing Director, Cavendish Nuclear

Good afternoon. My name's Mick Gornall. I'm the managing director for Cavendish Nuclear. I've been with the company just around five years now. Personally, I've got an in-depth understanding of the industry over 40 years experience working across all parts of the sector. That's in the UK and internationally. And my last role prior to joining Cavendish was the vice president for Westinghouse Electric Company's European nuclear fuel business. So, for my part of the presentation, I'm going to take you through the Cavendish business in some more detail.

When I joined five years ago, the business was struggling on the back of the Nuclear Decommissioning Authority's decision to insource the running of the parent body organizations, which were responsible for Dounreay and for Magnox. And Cavendish previously ran these organizations. So, on the back of that change, the business had to go through some fairly significant restructuring, which I got involved with when I joined the business with the aim of ensuring the business was more competitive in now a different market. And I'm delighted to share that this ambition was realised, as you'll see in the following slides.

So, a little bit about what we do. So, we deliver nuclear engineering solutions across Clean Energy, Civil Decommissioning, and Defence markets. What does that mean? So, if you look at the nuclear lifecycle, if you take from the uranium supply from the mines abroad as it comes to the UK, we do enrichment, which is carried out by Urenco. We do fuel fabrication, which is carried out by Westinghouse. It goes into the power stations operated by EDF. It generates electricity. Then the spent fuel and the assets at the end of life are dealt with by the Nuclear Decommissioning Authority. And the legacy is either dealt with or the waste material stored. So where does Cavendish fit in? So, we provide design, build, operational support, and ultimately decommissioning capability across that whole cycle. So hopefully that gives a picture of the role of the business.

So specifically, things we're involved with today. We're involved in nuclear new build, integrating and delivering the first-of-a-kind decommissioning projects. We're involved in developing new sovereign capability for nuclear fuel manufacture, and we're involved in supporting the development and installation of plant and equipment to support the deterrent as well as pieces of work Harry touched on before, submarine dismantling. So, within our organization, we've got over 70 years of experience, and today we are the largest sovereign, civil and defence nuclear solutions provider and one of the three leading players in nuclear engineering in the UK.

And the reason today we're talking about Cavendish Nuclear is because we have significant growth potential. So, for the last fiscal year, as Harry touched on, we were a 320 million pound business working across the three markets I described, Clean Energy, Civil Decommissioning, and Defence. We expect to see significant growth over both the medium and long-term in these markets. So, a few facts about the Cavendish Nuclear business today. We have over 2,600 highly skilled and talented people in the organisation.

We have the experience of supporting all 36 UK nuclear license sites across all nuclear lifecycle phases. Our main customers are the Nuclear Decommissioning Authority and their site license companies, Sellafield, the former Magnox and Dounreay sites. We support EDF in the broader sense generation and new build, and we support the Atomic Weapons Establishment, (AWE). As you can see in the graph, the key message to take away is that we are high-performing, high-growth business already, delivering double-digit growth and double-digit margins with over 20% growth realised in just the last three years and margins well above the Group average. This has been delivered through predominantly long-term contracts with a relatively low-risk profile. Looking forward, we have a very healthy orderbook of over £1 billion pounds and a pipeline of approximately £5 billion expected to be decided over the next three years.

This slide will build up. Delivering across the lifecycle, we do this across our three key markets, Clean Energy, Civil Decommissioning and Defence, whether that be design, build, operations, defuel and dismantle, which I described earlier. This requires specialist technical engineering knowledge and experience combined with advanced manufacturing capabilities. As a result, we are deeply embedded in longterm projects, often working with partners and alliances. I'll take you through our three key markets. In Clean Energy, we support the design of new reactors, such as small modular reactors and advanced modular reactors. Later, James, my colleague, will take you through in some more detail around this area. In addition to reactors, we're also involved in the design of new assets to support the various facilities required for fuel manufacture, conversion, enrichment, fabrication. We're also involved in the construction of new power stations, so Hinkley Point C, Sizewell C, and we provide operational support to the entire operating UK reactor fleet. At the end of life, we support the defueling of those reactors and ultimately, we'll be involved in the decommissioning when they're handed over to the NDA. In Civil Decommissioning, this is not just about pulling things down and knocking buildings over. It's also about the design and build of complex facilities to handle a process waste and to store radioactive material. We also bring critical operational support to licensed facilities through our laboratories and radiological services. At the back end, we support the decommission and cleanup of those redundant facilities when they come to end of life. We do not do this just in the UK, but we also do this in our international markets in the U.S. and in Japan. Finally, in Defence, so we are AWE Aldermaston's delivery partner for the provision of design and build services to support the UK Deterrent programme. Our role also includes provision of engineering support to the naval dockyards, providing infrastructure improvements as well as delivering projects such as the first nuclear submarine to be commissioned. That's HMS Swiftsure, which we're decommissioning at our facility in Rosyth in Scotland.

Again, just trying to bring this to life a little bit more. Some of our main contracts we have across this lifecycle. It's quite a busy slide. There's a lot of information, but there's some useful points I want to tease out. The key point to take away is that the business is characterised by large multi-year contracts with the figures referenced at the bottom of the slide. These contracts are underpinned by strong long-term relationships with our customers and within the supply chain. Going left to right, I'll illustrate how we're involved. If we look at design AWE delivery partner, this is a project at Aldermaston where we design source, manufacture, test and commission the process and production lines that go inside plutonium processing buildings on the AWE site. We have contract cover for the life cycle of the program with financial commitments issued in phases.

An example in build, Hickley Point C, widely considered to be the largest construction project in Western Europe. The project involves the construction of the first nuclear power plant under generation capable of generating enough low carbon electricity to power 6 million homes over a 60-year period. Cavendish is delivering the mechanical scope for the nuclear island on this huge project. From an operational standpoint, EDF operates four advanced gas reactors and the Sizewell Pressurised Water Reactor (PWR). Cavendish provides OEM supplied

equipment to these facilities and provides operational support through their lifetime. We have been supporting EDF and its prior iterations since the late 1960s.

Then, lastly, on the defuel and dismantle, and we're looking at civil decommission here particularly, the pile fuel cladding silo. This is a legacy silo housed up at Sellafield, housing some of the most hazardous waste stored in the UK in a bunker which was constructed in the fifties, designed never to be opened. Cavendish has designed, built and delivered sophisticated retrieval equipment to access this silo and safely remove its contents for processing and ultimately, for safe storage.

I guess the next question is, why are we going to be successful? In such a highly regulated industry like nuclear, with such high barriers to entry, we are strongly positioned to succeed with our expertise, scale and excellent track record. These are really important differentiators and I'm going to talk you through five key areas that give us competitive advantage today and tomorrow. Firstly, our people, definitely our most important asset. We have 2,600 highly skilled and experienced men and women in our team. As it's the case across all of Babcock Group, our people and skills strategy is a key tenant to our growth strategy. We have multiple initiatives to develop, attract, and build talent, including leading the UK's national skills strategy and through our nuclear academy. Its aim is to upskill 10,000 nuclear workers over the next five years across the nuclear sector. People and their expertise are our greatest asset and the key growth enabler.

Engineering capability. We have a deep technical competence developed over many decades. We're investing in technology and innovation. Some examples lean, we're looking at how we systematically eliminate waste and inefficiency in our organization using LEAN tool sets. We're looking to deploy AI, artificial intelligence, digital engineering to enhance our delivery process efficiency, all of which free up capacity and support our looking forward growth. Assets and infrastructure. With our people's expertise. Combined with our assets and infrastructure, such as our advanced manufacturing facilities at Rosyth, our manufacturing test and assembly facilities at Whetstone, in Leicester, we offer unique capabilities to support design building and manufacture. Credibility and reputation. We have a very strong industry reputation built upon many years of close collaboration with our customers and our track record for delivery.

Integration and collaboration. We have a significant experience working in partnership and in alliances and have an established supply chain to deliver the scale and complexity of the projects we're involved with. We continue to align with major players, and we have a number of arrangements in place. A good example will be the strategic partnership we have with HII across not just the UK but the international market. With regard to competition, we are one of the three big players in the industry, our closest competitors being Amentum and Atkins Realis. However, through our reach back into the broader Babcock group, we have greater breadth of capability, which means we're strongly positioned to win.

The long-term outlook, a really positive picture. If we look at the mega trends, which Harry highlighted earlier, Cavendish's position for a positive long-term outlook. This is due to a number of powerful structural market drivers. We have the UK's target of 24 gigawatts by 2050. The UK's desire to have sovereign nuclear fuel capability, industrial decarbonization, energy needs of emerging technologies, global aging fleets, our reactor fleets, getting towards its end of life. That combined with global insecurity and increased defence spending all give us very strong following winds.

Now, the slide we're showing now is a similar one to the one Harry shared at the Capital Markets Day. We updated it for Cavendish Nuclear. The key message here is that there is massive market potential to deliver double-digit growth and then some. We have some very significant long-term growth opportunities in Clean Energy, Civil, Decommissioning, and Defence. These are multi-year and £multimillion pound programmes and projects. This graphic tries to bring some clarity to the timescale of these opportunities. You can see in the slide when we expect them to be realised. The items in bold are our incumbent position and expected projections where we see the market developing.

If we go to Clean Energy, Hinkley Point C, is well underway, we have a large team working on the project, which James will talk to. We've commenced the enabling works for Sizewell C, which hopefully will be given the green light later this year and we expect to see further new large gigawatt projects following on from Sizewell. We're involved in SMR development, and we've been involved in various studies and partnerships. Great British Nuclear is about to launch its SMR programme in the spring. Then, on the back through alternative routes, we're going to see AMRs and more SMR fleet build.

EDF operational support. Yes, we're supporting the Advanced Gas Reactors (AGRs) today in Sizewell B, but we expect to play a role supporting the new generation of reactors, whether they be large, small or advanced. Fuel plant design. We're involved in front end engineering studies for Urenco and Westinghouse. We expect to be further involved in these projects as they move forward into the capital phase. In Civil Decommissioning the NDA and its mission goes on well into the next century. We expect our role to continue supporting this vital program across the NDA estate, but we do expect to see growth in our overseas market, particularly in Japan and U.S. where we're supporting their decommissioning mission.

From a defence standpoint, Aldermaston at AWE, we're providing engineering work on the Fissile Materials Campus project, which I touched on before, and we see that work continuing along out into the future. We're also involved with Swiftsure, HMS Swiftsure in the demonstration of the decommissioning. We expect that to be followed by UK fleet decommissioning and international opportunities. Then, lastly, on the dockyards. Today we're supporting engineering works on the infrastructure work associated with Devonport, Rosyth and the Clyde. We expect that to continue going forward and we envisage involvement in the AUKUS project over in Australia. As you can see, this paints a picture of a very positive outlook.

Looking a bit nearer to our medium-term outlook. Again, we see a very healthy picture. If you look at Cavendish's mid-term plan, we can see building on our prior growth to date, a continuation of growth over the next five years with a near doubling of revenue over that period. Our confidence in this growth comes from a high incumbency and is well underpinned by existing projects and plans. We see growth in Civil Decommissioning being driven also by international growth. Defence, we see continuing to grow out into the mid-term through our support in new infrastructure projects. However, the biggest contributor will come from Clean Energy as we look forward. My colleague, James Ewence, is going to take you through in some more detail how we see that part of the market developing. James.

James Ewence

Director, Clean Energy, Cavendish Nuclear

Thank you Mick. Hi. My name is James Ewence. I've worked in the nuclear and wider energy industry for 24 years, a number of engineering, project management and business leadership roles in that time. I'm now very excited to lead our Clean Energy business at what we see as a real pivotal time for nuclear energy. I'm going to give you more of a detailed introduction into what we do in our Clean Energy business today. The overall market and the opportunities we see for Cavendish Nuclear.

As you've heard from Mick, this is the market with the highest growth potential in our Cavendish Nuclear business over the medium and longer term, significantly driven by the need for new nuclear power. In Clean Energy, we work across fuel, power generation support, and nuclear new build. It's predominantly with commercial customers and at the moment, it's exclusively in the UK. Our market is characterised by long-term, so an average of 10 year, relatively low risk contracts and the majority of them are cost plus. Today, 1,300 highly skilled nuclear engineering professionals work across Clean Energy and we expect this to significantly increase in the medium term.

If we look across the lifecycle of the nuclear assets that we support, in design, we're working with small modular reactor (SMR) and advanced modular reactor (AMR) technologies in design and development. We're designing new nuclear fuel plants for Westinghouse at Springfields and Urenco at Capenhurst, and we're helping to optimize the replication of Hinkley point C at Sizewell C. In build, we're a key alliance partner at Hinkley point C, where today we have 600 people integrating and installing 350 kilometres of pipework, 35,000 valves and 7,500 rooms. It is truly gargantuan. Over the next few years, we expect that team to more than double.

Under operations, we designed and built key systems for the entirety of the current fleet of nuclear power stations in the UK and today, 450 nuclear engineering professionals helped keep those systems running, keeping those power stations generating as long as possible. At the end of their operational lives for these power stations, we'll support the defueling programme, and that's one to two years per reactor. Given the intimate knowledge of these plants, we anticipate being involved in the decommissioning programme that will follow.

The UK is undergoing a nuclear renaissance. As Harry has already explained, there are three global mega trends that underpin this; global insecurity, climate change, and energy security, and none of those are going anywhere soon. The light blue area on the graph shows the history of the UK civil generating programme from 1956 until today and the plan closure of the current fleet of stations. The dark blue area on the graph shows the scale of the 24 gigawatt challenge in comparison to the six gigawatts that we have today. The dark blue area shows that we've got to deploy civil nuclear power stations at a faster rate than we've previously achieved as a nation.

Both this and the last government have recognized the scale of this challenge, and they've created Great British Nuclear (GBN) as a government delivery body dedicated to supporting the deployment and development of new technologies in the UK. They've introduced regulated asset base (RAB) to finance new nuclear and reformed and regulated, sorry, introduced reforms to regulation and planning to accelerate the deployment of such stations. It's worth noting that other countries have achieved rapid nuclear deployment, South Korea, United Arab Emirates, and earlier this month, Ontario power generation in Canada gave the green light to start building its first small modular reactor using GE Hitachi's technology. This small modular reactor is expected to start generating electricity by the end of 2030.

The government is also committed to enabling sovereign UK nuclear fuel. As Mick has already explained, making nuclear fuel is a complex multi-stage process that currently relies upon globally disparate supply chains. Given the increased global instability we see and the focus on energy security, this has really brought this into sharp focus. There is a huge generating capacity challenge and Cavendish is to play an important role in the UK's nuclear renaissance. On the previous slide, I showed you the scale of the 24 gigawatt challenge. I'm now going to talk to how we see this breaking down.

As I've mentioned before, we have six gigawatts of generating capacity today, but five gigawatts of that is due to retire by 2030. Hinkley Point C is under construction and Sizewell C enabling works have commenced, and they're procuring long lead items. Between them, they'll deliver 6.4 gigawatts to the grid, and Great British Nuclear's SMR program could deliver up to three gigawatts. That leaves a 14 gigawatt gap. And you can see in green our own internal assessment of how we think that could break down, which also matches a number of commentators in the market.

So, we see potentially two further gigawatt power stations and then the remainder coming from small modular reactor and advanced modular reactors. Given the majority of SMRs are around 300 megawatts, that's 20 to 30 units. Al and data centres could drive additional demand to this. NESO, which is the National Energy System Operator, estimates that between four to five gigawatts, but it could be much more. And clear that technology companies are backing nuclear. Microsoft have completed a 20-year deal to buy power from the Three Mile Island US Plant, and Amazon have directly invested in X energy, one of the advanced modular reactors that we're working with in the UK. They've also committed to buying 320 megawatts of power from a company called Energy Northwest, again in the states, that could rise to 960 megawatts. And only on Friday, Matt Garman, CEO of Amazon Web Service, gave an interview to the BBC where he said "the UK needs more nuclear to power Al".

So, drilling down into the SMR opportunity, on a base case scenario of 10 gigawatts, which is what I've just outlined from the slide before, we see an addressable market of 15 billion to 2050 for Cavendish Nuclear. This excludes the upside from the data centres, which I've just outlined, which could increase this by 50%. Now, our estimates are supported by a study commissioned by the Forth Green Freeport, which Babcock is a member of, carried out by PA Consulting earlier this year. We believe Cavendish is really well placed to access this market. We're engaged with all SMR and AMR technology vendors in the UK, including Rolls-Royce SMR, who we've completed facility design work for, and are in dialogue with around a major role in module manufacture.

We've also supported GE Hitachi with design for manufacture the reactor pressure vessels and other systems. And as I said earlier, GE Hitachi have been given the green light to build the West's first SMR in Canada. GBN's SMR technology competition will be concluded later this spring, and we believe we have a significant role to play, irrespective of the technology chosen. We plan to leverage Cavendish Nuclear and the wider Babcock group capabilities. For example, higher-value, large-scale advanced manufacturing at Rosyth, repeatable, high-value complex modules are right in our sweet spot and will really contribute to the need for rapid nuclear deployment. We also plan on building on our experience of nuclear asset operations and maintenance, whether that comes from submarines or nuclear power stations, as SMRs will require operations and maintenance and skills from companies like Cavendish Nuclear. And it's worth noting there are significant Great

British Nuclear competitive procurement opportunities of around £1.5 billion, which we believe Cavendish is well matched against. So, what does this mean on a nearer-term horizon? In short, we expect Clean Energy to deliver double-digit growth with double-digit margins over the next five years, where Clean Energy will grow to 50% revenue of Cavendish Nuclear. If I start at the bottom of this graph, we have high confidence underpinned by our ongoing operational support to the existing fleet of reactors, and our incumbent positions at Hinkley Point C and Sizewell C. We expect the modular reactor opportunity to accelerate in the next two years, with real potential beyond this period. And lastly, the UK fuel programme to onshore production will continue to drive incremental revenues.

So, in summary, we see strong growth in our Clean Energy activities in the near and longer term, with double-digit margins. There is a huge nuclear energy capacity gap in the UK, and we are really well positioned in both large gigawatt and the modular reactor market. There's a significant upside potential across clean energy, and we are confident the UK Government is committed to nuclear power as a complement to renewables in a clean energy system. Nuclear enjoys cross-party support and the Labour government continues to build momentum, invest and reform the market. And the government commitment to nuclear, as demonstrated by Sir Kier Starmer on the 7th of May when he said in the House of Commons, "We are unashamedly pro-nuclear, pro-growth, and pro-jobs. That's why we're making it easier to build SMRs and scrapping absurd rules". So, I'd now like to hand over to Harry to conclude.

Harry Holt

Thank you, James. So just one final slide, which is you'll notice exactly the same as a slide I used at the beginning, so I'm not going to read through this verbatim. But I really hope you're coming away with a clear sense of why our markets are growing so strongly, why we are confident that they'll continue to do so, why we as a business, Cavendish is so well placed to benefit from that growth, and therefore why we have such high confidence in double-digit growth. And as we've said before that growth coming at above Group average margins. There is a microphone to come round. I shall feed the questions, I'll answer some of them, and I've got a panel of experts, James and Mick and others to help me on the more difficult ones. So, if we've got the microphone, who's in charge of the microphone? Mandy. Here, go on, let's start at the back. Make it nice and easy.

Q&A Session

Joel Spungin

Investec

Hi there. I've just got two questions maybe to start off with. First of all, can you talk about constraints on growth? And I'm thinking specifically about recruitment and how important finding the right people are. I remember reading something about how the average age of someone who works in the nuclear industry is well into the mid-fifties or something. So, can you talk about how that's going to affect your long-term objectives? My second question is, just thinking about your 2030 targets, I mean I'm not an expert, but if you look at what's happened with EDF and Hinkley Point C, it's been chronically over budget and chronically late. How sensitive is your target for 2030 to delays in the awarding of new nuclear projects?

Harry Holt

Fine. So, I'm going to let Mick take the second of those, and I'll do the first. That'll give him a little bit of an opportunity to think about your second question. So, you are right, the major constraint on growth is resources. We've said how important our people are. You may notice that at the Capital Markets Day event last year, I talked about a skilled workforce of 10,000, and now I'm talking about a skilled workforce of 11,000, and we run at about a 7% attrition rate. So, you can do the maths as well as I can. We've basically brought in about 1,700 people to the sector in the last year. So, we've got a proven track record of being able to ramp up our resources commensurate with the revenue growth that we see.

Importantly, we are a member of the Nuclear Skills Task Force. So, the Nuclear Skills Task Force is a national endeavour, because this is effectively a national challenge. We were a founding member, and David, our chief executive, sits on the executive council. And there are a number of aspects of the Nuclear skills task force that I think give you a sense of how seriously this has been taken and some of the successes that we've had. So, we've had a strategic recruiting campaign, you may have seen it, called Destination Nuclear. We as a business have committed to doubling our intake of early careers personnel. So as a sector we have just over 1,200 on our Early Careers Programme. That's about 900 apprentices and 300 graduates.

And we also established the Babcock Skills Academy, where we hope to be able to up-skill and train up to about 10,000 people across a fiveyear period. And we're also leading the South West Regional Hub, and we hope to do likewise up in Scotland. So, I think we have a good track record being able to bring people in, but we're also heavily involved at a national level to bring more people in and also bring people more across from other sectors. So, the second question, Mick?

Mick Gornall

Yeah, so the question about Hinkley Point C and the challenges with that programme, it's late, its costs have overrun. If you look at it as a project, there's a lot of lessons learnt. It's a first of a kind in the UK. We haven't built a power station since the 1990s. But one of the big learning points is, don't start constructing a power station while the design is still being modified. The UK regulator imposed certain changes off the reference plants in France, and that lead to some complications in the supply chain. And then of course you have the COVID in the middle of the construction phase. There's a whole bunch of reasons why that project is now delayed. I think the important point to take from it is the lessons learnt from it have been really well understood. They're being applied into Sizewell, and that will result in a significant schedule and cost improvement compared to Hinkley Point.

So, from a Cavendish plans point of view, we understand the Hinkley situation, we're in the project, we know exactly where it's going, and we know how Sizewell is going to pan out from the work we've been doing in the preparations of the cost estimates for the customer. So, the bottom line of the answer is, it won't have an impact. We've got a good understanding of what that means. It's factored in our plans. I guess the only risk is if Hinkley continues to be a real challenge, it's the impact on the perception of nuclear. But I think the view of nuclear

and its role in a mixed portfolio with renewables, that's not going to wait. I think nuclear, the nation is fairly committed to it now, so that shouldn't be a risk.

Harry Holt

Brilliant, thank you. Yes, mic? Thanks.

Sasha Tusa

Agency Partners

Sash Tusa from Agency Partners. Perhaps I could just ask another Hinkley question there. I think you talked about your MEH workforce on the nuclear island doubling over the next couple of years, which seems... I mean, if I heard that right, that seems terribly late in the build process. How do you manage then retaining that portion of the workforce before the same work is required at Sizewell? Or can you genuinely redeploy them across the rest of Cavendish?

Harry Holt

So, again, I'll let Mick elaborate on that, but there's a phase, it's a phased approach to the programme overall. The MEH, the mechanical and electrical work inside the nuclear island comes relatively late on in the project. So, we are ramping up consistent with the overall programme requirements, and then there's a challenge for us to make sure that we can scarf that workforce into supporting Sizewell C. But, Mick, I don't know whether you want to elaborate?

Mick Gornall

That's a good question. I'll let James answer it. It's something we've been discussing at length because of the transition between the two programs. Timing is important.

James Ewence

Absolutely. So, we're currently working on unit one at Hinkley Point C, and our workforce is ramped quite significantly. We've brought over 500 people to the project in the last 12 months, and we see that rate continuing. We will transition towards Unit 2 probably later on this year and into next year. And we'll be working on the two units concurrently and at the right time. We've got a number of years of work to do at Hinkley Point C. That workforce will be in a position to transition to Sizewell, where we call them Units 3 and 4. And that's our plan. And our long-term planning around early careers, and we're starting to think now about how do you bring apprentices perhaps from Suffolk to work at Hinkley, and then they can return. So that's the sort of long-term planning that a four unit programme can allow you to do over a decade or so.

Mick Gornall

And just to give you some assurance, there's some grown up thinking going on around that particular question where the supply chain's collaborating with EDF on Hinkley point and the government on Sizewell C to understand how we manage that risk in the most effective way.

Sash Tusa

Agency Partners

Okay, thank you. And then just two other questions. Advanced modular reactor compared to small modular reactor, why should we care about that from point of view of Babcock? What are the different characteristics?

Harry Holt

So, we're going to answer this question in the presentation, because they are different, but it's quite a complicated answer. So, I'm glad you've asked the question. I can't remember, James, whether you were going to do it?

Mick Gornall

I'll help you if you get stuck, James.

James Ewence

We'll have a go, and we'll start at the beginning. So, a large gigawatt reactor is a very large machine, and they're currently stick built is the way we think of them. Large construction teams on site. A small modular reactor is a scaled down version of the pressurised water reactor (PWR), but it allows more components to be built in a factory on a repeatable basis, which allows you to really understand the cost of financing and the risk, and therefore we get Nth of a kind benefit.

Moving to an advanced modular reactor (AMR), they use a different fuel type, but they're still a modular reactor. And that allows them to do some different things in our decarbonization journey. They can help decarbonise industry that uses high temperatures, they can help reduce hydrogen, and they can help make synthetic fuels. And so, they just allow us to access different portions of the energy sector. And if you think about the energy sector system as a whole, only 20% of our energy is electricity, the rest is industrial heat heating our homes, cars, our transport. And so, AMRs really help access decarbonizing the other sector. So, from whether we should care, we shouldn't really care. We aim to be technology agnostic. But as citizens of the planet, we should care, because we need all these technologies to work.

Harry Holt

Yeah, so SMR and AMR basically are exploiting economies of volume rather than scale.

Mick Gornall

Yeah, and they're complimentary.

Harry Holt

And they're complimentary. Yes, at the back?

James Beard

Deutsche Bank

Thanks. James Beard at Deutsche Bank. Two questions please. Given that the business is earning above group average margins, I wonder if you could speak a little bit more about why you think your competitive position in this market is sustainable and won't be competed away, I.E. won't be driven down to single digit margins over time in the wider space? And then secondly, on SMRs, you've mentioned that you're working with two of the potential design candidates. What happens if one of the other two wins?

Mick Gornall

All right, you do the second one?

Harry Holt

So just take those in reverse order. So, in terms of the, we've already said we're basically technology agnostic in terms of the SMR competition. As you were aware, there were four vendors that were down selected. One of those, Westinghouse, has just dropped out, leaving Rolls-Royce, Holtec and GE Hitachi. We are in dialogue and partnership with each of those. So, we're confident that whether it's one or two that gets selected, those work for us with the vendors and also with Great British Nuclear, who obviously going to be the body that bring these to market.

And then on your first question, so I think the real reason certainly within the sector is that Cavendish Nuclear is not subject to single source contracting regulations (SSRO), whereas the rest of our sector largely is. So that means that it's able, it's in a competitive environment, we're pretty confident of being able to sustain the margins that we make today. Mick, I don't know whether you'd add to that?

Mick Gornall

Yeah, there's a few other points to build on that, Harry. So, we do differentiate in that we have certain skill sets within our organisation, which some of our competitors don't have. We have a lot of experience in remote handling, highly active materials derived from our work service in the NDA over many years and the reactor fleet. And within that skill set in the organization, we've worked very hard to develop new people to pick those skills up so that we can take that forward. We're not subject to the demographic challenges which were raised previously. And I guess from a margin perspective, the skills that are in demand to realize all this ambition are really scarce and hard to find. So that's always going to make sure that we can charge the right sort of price for the services to maintain our margins. So, differentiate on capability and satisfy the requirements for scarce skills. I think they all help to maintain that position.

Harry Holt

Any other questions from the floor? Yes, front.

Chris Bambury

Peel Hunt

Chris Bambury, Peel Hunt. Just a couple of questions. Within the clean energy space, what's your relative market share compared to your two leading competitors and how's that changed over recent years? And secondly, just going back to the margin, what's been driving that increase in recent years is the kind of general stuff we've seen across the group, are there are more specific things relating to the nuclear business? Thank you.

Harry Holt

So again, I think let's go in reverse order. So, in terms of margin, I think we're seeing the benefits of the restructuring that Mick alluded to when he introduced himself. So about three or four years ago, the business took a good hard look at itself. It restructured, it reduced its overheads, and whenever you do that, you know when the market comes back, you're going to be able to benefit and I think that's basically what we've seen in Cavendish. So really good management of our contracts, really good control of overheads has allowed us to grow that margin over the last couple of years.

And then market share, that is a difficult question. It really is a difficult question because we're not a utility operator, so it is difficult to think about our markets in a way that would allow us to come up with a clear market share. We are one of the three lead players in the UK, the others being Amentum and Atkins, and I think we enjoy a pretty good relative market share compared to those two. Mick, would you elaborate on that at all?

Mick Gornall

No, it is really hard to define what is the market. I guess that's the problem, and particularly in clean energy at the moment, predominantly it's just Hinkley Point. And if you study our mechanical engineering scope, we've probably got 50% of the market on Hinkley, but it is developing.

Harry Holt

Yeah, because you've got a market around current energy generation, you've got a market around new build, both at large gigawatt and small modular scale, and then you've also got a separate market around nuclear fuel processing and conversion.

Sash Tusa

Agency Partners

Thank you. It's Sash Tusa again. There were two announcements by the UK Government last year, at least one of which came out on a convenient data, very interesting news, which was straight after the presidential election, but about the UK wanting to or intending to reestablish production of highly enriched uranium, and then separately, production of tritium. One of those would clearly come into your defence space. Tritium I'm less certain about. Could you just tell us where those actually fitted into the various market opportunities that you talked about earlier on one of the earlier slides, or indeed whether they do?

Harry Holt

Yeah. So, they're largely upside to what you saw. I'm going to be a little bit coy about our answer. We see this as actually a significant and exciting opportunity for us where we're uniquely well positioned given our experience with the fuel cycle in the civil market, but beyond that, I probably shouldn't comment.

Sash Tusa

Okay. So just to be clear, it's not in the category of UK sovereign nuclear fuel. That is civil nuclear fuel.

Harry Holt

That is both for civil and in this instance defence.

Sash Tusa

Thank you.

Harry Holt

But the change is predominantly around civil, because previously, the civil nuclear fuel route, as you heard from James, has been very dependent on the global supply chain.

Sash Tusa

But when you talked about work for both Westinghouse and Urenco, are those both civil fuel programmes?

Harry Holt

Yes, they are. They are. Yes, back right?

Ben Brown

Jefferies

Hi, Ben Brown, Jeffries. Could you just speak to the risk profile in the bid pipeline? I think you mentioned in clean energy you're at 60% cost plus. Should we expect that to be similar going forwards or should we expect a change there?

Harry Holt

I don't think we'll see a significant change. Mick, your view?

Mick Gornall

Yeah, they're going to be a mix of contract vehicles to take it forward, so whether it's going to be reimbursable or target cost contract arrangements, but it sits within our normal risk appetite as a business. We don't see them going to fixed price, lump sum, turnkey or anything like that.

Harry Holt

As you heard earlier on, low risk, long-term contracts is one of the defining characteristics of the business, and we expect that to continue. David?

David Perry

JP Morgan

Yeah. Hi, David Perry from JP Morgan, and I know the formal guidance is only to 2030, but it looks like some of the opportunities are beyond 2030. The SMRs, the AUKUS. 10,000 has become 11,000. Does this become a 15,000 to 20,000 people enterprise or am I getting ahead of myself? And maybe I missed it, but I thought you had a partnership with Huntington in the US, but I don't think that was mentioned in the presentations.

Harry Holt

Yes. So again, let's go in reverse order. So, we did mention Huntington Ingalls Industries (HII) but let me just expand on that. So, we have a strategic partnership with them at a group level, which actually spans beyond just the nuclear sector, but for us as a sector, a number of important aspects. So, first of all, we established a joint venture with HII in Australia last year called H&B Defence. That's the organisation through which we want to address the majority of the AUKUS opportunity, and we work with them here in the UK on our defueling and dismantling activity with the submarine delivery agency, and then equally, we're partnering with them in the US as a key market entry into the US decommissioning market. So that's really HII. As I say, a group strategic relationship which is very relevant for us as a sector.

And then yes, are we going to be 13,000, 15,000? You're right. When you look at the charts, you can see a bit of a potential inflection beyond 2030. That's partly because our five-year plan is obviously underpinned and some of the charts you saw beyond 2030 has more upside shown. That's driven, you're quite right, by the timing of or the expected timing of SMR deployment and also the AUKUS opportunity. You'll remember at the capital markets day, I talked about the AUKUS opportunity being potentially 10 to 20 billion over the next 70 years, and we would see that definitely ramping up in the early 2030s when the Australian Navy begin to take delivery of their first nuclear-powered submarines.

So, we do expect the resources and revenue to hopefully not track each other exactly, but resources will have to increase. Will we get to 13,000 or 15,000? I think we will. Over what timeframe? I'm not quite sure, but I think all the stuff we're doing on the people agenda gives us confidence that we can bring the necessary people into the business to support the growth. Anymore, for anymore? Yeah?

Sash Tusa

Only if no one else wants to. So, I just wondered whether I could ask for a very brief history lesson. You referred to five years ago when the NDA insourced everything in Dounreay and Magnox, and that you had been leading a lot of that. Why did that occur and why is it that they're still working with you, or indeed, why is it that they've come back and worked with you again after what was probably from your point of view a slightly traumatic change in the business relationship?

Harry Holt

So fundamentally, it was nothing to do with performance. It was just simply a change of government policy. It all happened five years or so ago, and as Mick said in his introduction, having been in the industry for 40 years, I think I'm going to allow the history lesson to be given by Mick. Go on.

Mick Gornall

Yeah, I think there was issues with the competition process. Yeah, I'll stand up. So yeah, there were issues with the competition process, and I think some of the validity of the tendering process which NDA took forward was challenging the courts. And I think fundamentally, government got cold feet in the whole PBO (Parent Body Organisation) approach and decided to insource it back into the NDA rather than outsourcing it M&O (manage and operate)-wise to the supply chain. So, it wasn't just a Cavendish issue. Sellafield Limited did a similar thing. Cavendish was involved with Magnox and the Dounreay partnerships, and now today, there are site license companies managed and operated by the NDA. We still retain an important role, but as a tier two contractor primarily, servicing those site license companies. So, we've maintained our position in the market, but the nature of the work is very different. We don't have the revenue passed through from those large facilities. We're competing now for commercial contracts.

Harry Holt

So every cloud has a silver lining, and one of the silver linings is that actually the US market is moving to more of a PBO model, and the fact that we've got a reference as a PBO player here in the UK is very helpful for us as we break into that market.

Yeah? We'll go around the long way. Definitely don't throw it.

Bhavin Manek

Mondrian

Thank you. Bhavin Manek at Mondrian. Three questions please. What do you think differentiates you guys from the other two major players, and what makes you a more attractive employer compared to those two players? Sorry, that's actually two questions. Then what sort of competition might there be from other international players? I think AFRY of Sweden for example is quite strong in nuclear as well. And then thirdly, what key risks does this business face as you look out into the next five years?

Harry Holt

Lots of questions there. I'm probably going to go broadly in reverse order. So, on key risks, I would definitely have resourcing there. We've said a few times that we're a people-orientated business and that's why we have done as much as we have done on the Nuclear Skills Taskforce and our own Nuclear Skills Academy, and we work really hard in the Cavendish business on retention because it's a very hot market and although we pay competitively, we can't just bribe people to stay in the business. So, we've been working really hard on culture, on D&I, on all the other aspects, career development, that actually really help with retention, and we've seen evidence of that succeeding. So, in terms of risk, I would just say resourcing, resourcing, and that's why we're as focused on it as we are.

Competition, I might leave for Mick. What makes us an attractive employer? Obviously, we need to pay competitively. That's a given. I think a number of the initiatives that I've just mentioned in the Cavendish business help us to be an attractive employer, and I also think the fact that Cavendish sits within a larger nuclear sector and within a larger group is very attractive. It's attractive because of the wider career opportunities that provides for people. And I think, and I would say this, wouldn't I? Because I referenced the purpose right at the beginning. I think our group purpose of creating a safe and secure world together is actually quite compelling, not only to draw people in but then to retain people when they find themselves working for us. So, competition, do you want to talk about competition?

Mick Gornall

Yeah, I think there's two main elements that ensure we differentiate from a competition standpoint. So, I think if you look at what Atkins does and Amentum, former Jacobs, in an engineering slice, we're broadly similar, but Cavendish has got broader capabilities than that. It can get into the manufacturing side and the supply chain in perhaps different ways which those competitors couldn't. We have that reach back into Babcock which enables that, so advanced manufacturing at Rosyth capable of making really difficult nuclear stuff and integrating it with our design capability I think truly differentiates us.

And then the point I mentioned to a gentleman earlier, we call it alpha skills. This is the ability to deal with really highly active material, plutonium and uranium. We've developed technologies, know-how, safety cases around that, and we're probably the repository of a lot of

the knowledge in the UK, to the point where it does differentiate us and when we do bid and compete for work in those areas, we are generally successful.

With regard to overseas, an interesting question. It's something we keep a watchful eye on. We are bringing our friends from HII over to the UK, but each country's got its own unique regulatory environment. There's a pretty steep learning curve to come into the market. The barriers to entry are pretty high. We shouldn't be complacent, but it's not an easy market to enter.

Harry Holt

And then your first question, which was around differentiation, we've touched on, and actually, quite a lot of what differentiates us is also what makes us attractive to people, and it's that being part of a larger group. So that gives us reach, it gives us scale, so when we think about the AUKUS opportunity, for example, Babcock has a business in Australia, so we already have a bridgehead in that market. So, I'd say reach and scale at both sector and Group level is a key differentiator for Cavendish.

Bhavin Manek

Mondrian

Sorry, can I just ask one more follow-up? Just in terms of risks. From a safety element, you mentioned in terms of you've got safety use cases, but within a particular contract, you're working on something within the nuclear power plant, if something goes wrong that is a fault of your engineering teams, are you on the hook for that or what's the downside there?

Harry Holt

Generally, no. In simple terms, we don't own the product safety risk for the products in either the defence or the civil nuclear markets that we operate in.

Mick Gornall

The design authority typically sits with the client, so we will develop a solution that meets their requirements, but the consequential output, we're not liable for.

Harry Holt

At the back.

Joel Spungin

Investec

Sorry, just a quick one. I seem to remember, it may no longer apply but I seem to remember that Cavendish used to have a partnership with Bechtel and Fluor. I guess those might have been part of what was in-sourced by the NDA. I'm just wondering if you still have a partnership with those guys? Especially thinking about your internationalisation, whether there's anything still there?

Harry Holt

Yeah, so we do, and Mick can talk to that in a minute. We have multiple. In fact, it's difficult to think of anyone in the industry that we're not partnered with in some way, shape or form on one of the contracts. Bechtel is a strategic partner for us, but go on, Mick, you can expand a little bit more.

Mick Gornall

Yeah, we've had partnerships over many years, and we continue to do so looking forward. So, we've worked with Amentum, we've worked with Fluor, we're partnering with Bechtel in the UK. Today, we're working at Sellafield, we're working at Capenhurst, we're working down at Devonport, we're exploring opportunities overseas together. I think we can be competitors in some markets, and we can collaborate in other ones so I couldn't really single out any single company we're having particular partnerships with, but we've got alliances and good strong relationships with most of the supply chain. I guess the one to pull out is HII because it's an international collaboration, which is a little bit different, but yeah, all the companies you mentioned we are still working closely with.

Harry Holt

We're still talking, still partnering, and Bechtel in particular were one of our partners for the AUKUS opportunity. Any final questions from the floor? Going, going, gone. Thank you very much everybody for your time and your attention. I hope you found that useful.

ENDS

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