

Date: 16 July 2004

Babcock International Group PLC

Annual General Meeting 2004

Chairman's Statement

The following is the text of the statement being made by the Chairman of Babcock International Group PLC at its Annual general Meeting being held today, 16th July 2004, starting at 11.30 am

"In my statement in the Report and Accounts I said that the transformation of Babcock from an engineering conglomerate into a support services business was now complete. We were however looking to broaden the customer base and to reduce the proportion of defence related business in the Babcock portfolio. The preferred route was to acquire Peterhouse Group Plc and that was completed on 15th June this year. We now move towards the integration of the two businesses and to grow both the existing Babcock business and the newly acquired ones in Peterhouse. Our initial findings at Peterhouse confirm our belief that this is a good business and that there are no unexpected problems. This is hardly surprising given the extent of our due diligence in the run up to announcing a bid.

The bid process is tortuous and expensive, but patience and determination found a route through the labyrinthine rules governing bids for public companies. I should like to thank my colleagues and our advisors for their skill and efforts which resulted in success.

Trading is in line with our expectations as at the time of our Preliminary Results announcement in May in respect of both Peterhouse and Babcock. As you know the major contract win in the last six months was the South West Regional Prime project to manage the Ministry of Defence Estates in the south-west. This contract has now commenced, but there are continued delays in a number of other Ministry contracts. The confirmation of the outcome of the Chancellor's spending review should give clarity to the Ministry of Defence budget and by so doing release some of the delayed programmes. Negotiations continue with the Ministry of Defence on the forward programme at Rosyth. However notwithstanding the outcome of these negotiations, which we trust will be positive, we continue to seek efficiency improvements which will enable us to win contracts outside of the Ministry of Defence, where we had success last year, in particular with the contact for the building of component parts for Terminal 5. We hope to be able to announce, shortly, further new contract successes from the recently acquired businesses.

The recently announced compensation payments from Network Rail for withdrawn rail maintenance contracts were in line with our expectations and those taken into account by the Directors of Peterhouse when the majority of their Directors recommended our bid.

The successful implementation of the Babcock strategy has produced a substantial increase in shareholder value, with Babcock shares having outperformed the all share index by 77% over the five years to 31st March 2004. The turnover of the new group on an on-going basis will be some £750 million per annum with a better spread of business risk. We are well positioned for future growth.

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Babcock International Group PLC

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