13 July 2007

Babcock International Group plc ("Babcock" or "the Group")

AGM STATEMENT AND INTERIM MANAGEMENT STATEMENT

At today's 11:30 Annual General Meeting of Babcock, the leading support services company, Gordon Campbell, Chairman, will make the following statement:

"We have today issued a trading update which in summary confirms that we are in line with our expectations for the current year and refers to a number of new contract wins. Most of our businesses are out-performing those expectations although there has been some weakness in the Rail business.

"The acquisition of Devonport Management Limited ("DML") was overwhelmingly approved by shareholders at the Extraordinary General Meeting on 15 June and we have subsequently completed the acquisition. We expect the OFT's decision in the course of the next few weeks. The Board believes that the acquisition of DML will be significantly earnings enhancing in the first full financial year following the acquisition and we are encouraged by the positive reaction from the senior management at DML.

"On 9 July the company announced that it had acquired 50.9% of the shares in issue of International Nuclear Solutions plc ("INS") and that the offer was wholly unconditional. The offer has been extended to 24 July 2007.

"As well as the earnings enhancement from acquisitions the Board continues to believe that there is significant scope for organic growth in our existing businesses and remains confident regarding the future prospects for the Group."

In addition, Babcock today releases its first Interim Management Statement for the financial year 2007/08 in accordance with the new Disclosure and Transparency Rules (DTR).

The financial year 2006/7 continued the excellent progress of recent years, with the Group achieving its fifth successive year of double-digit growth.

The current financial year has started well and the Group's trading performance remains in line with expectations. Babcock has continued its record of successful organic growth, with new contract wins in civil nuclear support and decommissioning as well as further successes in the Engineering & Plant Services and Networks Divisions. These wins are worth approximately £75 million in total to the Group. With the addition of DML the Group's order book now stands at some £3.0 billion.

Strategic Developments

The Group has made two acquisitions which the Board believes will position it well in the naval support and nuclear support markets:

<u>Devonport Management Limited ("DML")</u>

The Group announced the completion of the acquisition of DML for £350 million on 28 June. The acquisition was funded from a new £600 million bank facility and an equity placing of 19 million shares at 475p raising £90 million before costs. DML, which generated turnover of around £450 million and earnings before interest, tax and amortisation of £48 million in the twelve months to 31 December 2006, provides support to the Royal Navy's submarine and surface ship fleets and complements existing Babcock activities in Rosyth and HM Naval Base Clyde ('Faslane'). The acquisition is aligned with the objectives of the Ministry of Defence 'Defence Industrial Strategy'.

As a result of the acquisition, Babcock is realigning its reporting divisions to combine its three marine businesses under a new Marine Services division. The new division will combine DML, the activities at Rosyth which are currently reported under Technical Services and those at Faslane currently reported within Defence Services. The first results for the combined Marine Services segment will be released with the interim results in the autumn.

International Nuclear Solutions plc ("INS")

On 9 July the Group announced that it had acquired 50.9% of the issued share capital of INS at 63 pence per share and that its offer to acquire INS shares had been declared unconditional in all respects. The offer will remain open for acceptances until 24 July 2007.

INS's expertise in the nuclear decommissioning market and in particular its strong presence at Sellafield will further enhance Babcock's position in the civil and military nuclear sectors and INS will work closely with Babcock's existing nuclear capabilities at our businesses in Rosyth, Faslane, DML and Alstec.

Trading update

In the period commencing 1 April 2007 Babcock has continued its record of successful organic growth, with new contract wins in civil nuclear support and decommissioning as well as further successes in the Engineering & Plant Services and Networks Divisions. These wins are worth some £75 million in total to the Group:

Marine Services

Activity across Rosyth, Faslane and Devonport remains strong. Rosyth continues to be engaged with warship refit activity working on its portion of the 'Gloucester 12' allocation of vessels. Design & Technology remains busy both on defence activity, continuing design work on the Future Aircraft Carrier ("CVF") programme and North Sea oil & gas related projects.

DML has been awarded a contract worth some £25 million by The Ministry of Defence to supply 130 new weapons-mounted patrol vehicles under an Urgent Operational Requirement for troops in Iraq and Afghanistan by the end of 2008.

Activities at both Faslane and DML continue to be driven by on-going engineering and safety requirements of the Royal Navy's nuclear submarine flotilla.

Civil nuclear support & decommissioning

The Group's nuclear businesses had a number of successes during the early months of the new financial year:

- DML was appointed preferred bidder to provide specialist support to British Nuclear Group for the Berkeley power station. This contract is worth around £12.5 million over two years.

- ALSTEC has secured a contract for the decommissioning and demolition of a building complex on the Atomic Weapons Establishment (AWE) site at Aldermaston. This contract is worth around £3.7 million over two years.

- Frazer-Nash Consultancy, part of DML, is a member of the Serco led consortium to provide £15 million worth of specialist technical and engineering support to Magnox reactor sites over a five year period. The contract is worth £1 million per annum to Babcock and will draw upon Frazer-Nash Consultancy's consultancy expertise in support of the last two operating British Nuclear Group Magnox power stations at Wylfa and Oldbury.

Work continues on a number of other major opportunities in the civil and defence sectors using the enhanced resources within the Group's nuclear businesses.

Engineering and Plant Services

The economy in southern Africa continues to be buoyant, yielding significant growth opportunities for both the equipment and the power generation businesses. Babcock Africa has recently won three major contracts. The Equipment division has secured an order for Volvo construction equipment worth around £12.7 million – the largest single order achieved by this division to date. Powerlines has received an order worth £5.7 million for the provision of new transmission lines and the Engineering division has secured a further £5.7 million order in support of Mittal Steel.

Decisions are awaited on a number of other high voltage overhead line contracts as well as for the first of several major contracts for the integration and assembly of new power generation plants for Eskom, the local power utility.

Rail

There has been some weakness in the Rail business due to a combination of the cost and additional effort required in responding to Network Rail's plan to reduce the number of suppliers for track renewals. In addition there has been a temporary hiatus in the release of signalling contracts.

Although there are signs that the release of signalling contracts is beginning to improve, no significant upturn is expected before the end of the half year. A decision on which four out of the six current contractors will be selected by Network Rail to undertake track renewals work is expected by the end of September 2007. Non high output track renewal activity accounted for around £60 million of Babcock Group revenues in 2006/07.

Other markets in Rail are relatively solid and recent contract wins such as the two 'type C' signalling framework contracts and the £25 million Trent Valley capacity enhancement project demonstrate the capabilities of the business.

As such, whilst the long-term prospects for our rail business remain healthy, the outturn for the first half is likely to be below our previous expectations.

Networks

The formation of the Energy Alliance with Amec plc, Mott MacDonald and National Grid plc which was announced in March 2007 is progressing well. The preliminary assessment of the scale of line refurbishment to be undertaken indicates a significant workload over the next five years. Similar work has also been secured with EDF Energy Networks in March 2007 and work continues on condition surveys for other power network owners in the UK which may lead to further substantial opportunities.

The communications business continues to focus on the UK digital switchover and had a number of good successes in recent months. Since April, Networks has secured five new projects valued at £7 million in total for Digital Switch-Over (DSO) related activity at sites around the UK for Arqiva. Mobile telecoms work remains at a relatively subdued level however a number of opportunities for growth are now being identified.

Defence Services

Trading remains positive in all areas. Performance in the multi-activity contracts and the two Regional Prime contracts has been strong and margins are ahead of our expectations. The contract for the management of facilities and training for the Royal School of Military Engineering is under negotiation and we are working towards financial close in the spring of 2008. This contract would add approximately £40 million per annum to revenue over a 30 year period.

Summary

The outlook for the Group remains positive with markets offering Babcock growth opportunities. The ability of Babcock to deliver customer requirements should ensure that the Group continues to benefit from the strength of these markets. The acquisitions of DML and INS will enhance earnings significantly.

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