

**Company** [Babcock International Group PLC](#)  
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## **Babcock International Group PLC**

### **Trading Update**

In accordance with its normal practice, Babcock International Group PLC ("Babcock" or "the Group") makes the following trading statement in advance of its interim results for the six months ending 30 September 2007.

Overall trading continues in line with the Group's expectations at the time of the Annual General Meeting and Interim Management Statement in July 2007.

#### **Operational review**

With the publication of the 2007/08 interim results, Babcock will be amending its segmental reporting structure to reflect the creation of a new Marine Services division. This reflects the programme underway to integrate the capabilities of Babcock Engineering Services at Rosyth, Babcock Naval Services at HM Naval Base Clyde and the recently acquired Devonport Management Limited ("DML") at Plymouth. Comparative financial results reflecting the new structure will be provided with the interim results.

#### **Contract wins**

The Babcock order book currently stands at £3.2 billion, up from £2.3 billion in July. Across the Group there have been a number of successes in winning new business since our previous statement in July, of which the highlights include:

- • **Marine Services:**
  - The start of the Future Nuclear Facilities project at Devonport to upgrade fuel handling facilities to enable the de-fuelling of Swiftsure and Trafalgar class submarines when they are taken out of service. The development and construction activity is valued at a minimum of £150 million and will take place between 2007 and 2011.
  - An extension to the Warship Support Modernisation Initiative ("WSMI") contract for HM Naval Base Devonport valued at £170 million over the next eighteen months.
  - A refit package for the amphibious carrier HMS Ocean.
  - A £30 million award to produce MWMIK (Mobility Weapons Mounted Installation Kit) vehicles for the Ministry of Defence to support operations by British forces in Iraq and Afghanistan.

- • **Defence Services:**  
An agreement with Defence Estates to integrate the Bristol Bath Total Facilities Management project into the Regional Prime Contract South West. This increase in scope of the Regional Prime contract will be worth at least an additional £10 million per annum for a minimum period of three years.
- • **Engineering & Plant Services:**  
As part of a local consortium, Babcock has been awarded a contract to support the integration of OEM equipment into the first of three new power stations as part of the South African government's investment in its power generation infrastructure. The first such project will be worth at least £20 million per annum to Babcock, over a six to eight year period.
- • **Rail:**  
Babcock's Rail business has been selected as one of four main contractors to continue the provision of future track related support services and Babcock anticipates that this development will contribute an increase of £30 million in incremental track related revenues per annum over the current level.

In addition to recent contract successes, the pipeline of potential new business remains healthy and we are optimistic that a number of opportunities will be converted to contract or preferred bidder status within the next two months, worth an estimated £270 million;

**Defence Services:** Facilities Management for the London Borough of Hackney under the Building Schools for the Future programme in a Babcock joint venture with Mouchel Parkman (estimated value £75 million in the first five years).

**Babcock Marine:** The refit of the Vanguard class nuclear submarine, HMS Vigilant (estimated value £180 - 200 million).

**Babcock Marine:** Design and construction of specialist equipment to support the decommissioning of the nuclear waste storage vaults at the Berkeley power station (estimated value £13 million).

Further progress in the future aircraft carrier ("CVF") programme was announced in July. Babcock anticipates that the contract for CVF being worth some £500-600 million to Babcock through 2015.

Good progress is being made on the Royal School of Military Engineering (RSME) PPP and financial close is anticipated in May 2008 with service commencement in November. On approval this contract would add some £40 million per annum revenues to Defence Services.

### **Segmental review**

All contracts in the **Defence Services** business continue to perform well.

The newly created **Marine Services** division is focused on delivery of operational support to the nuclear submarine flotilla and surface warships of the Royal Navy. Negotiations continue with the Ministry of Defence to establish a commercial framework for Marine Services which, once concluded, will be in place for a number of years.

Further progress in the future aircraft carrier ("CVF") programme was announced in July. Babcock anticipates the contract for CVF being worth some £500-600million to Babcock through the length of the programme to 2015 and looks forward to participating with its Alliance partners to deliver the two largest ever warships constructed in the United Kingdom which will be integrated at Babcock's facilities at Rosyth in Scotland.

Babcock's business at Rosyth has also won new business leveraging its wide-ranging skills and engineering capabilities. Babcock is engaged in modular construction for utility systems for the new Birmingham General Hospital and designing ship conversions for mining on behalf of DeBeer's via an enabling agreement.

Our nuclear business is very busy and over the next six months we will be bringing together the various components into a single, focused business.

The weakness in the **Rail** business noted in the July Interim Management Statement has continued and the Division's operating results for the first half will not meet our original expectations. In part, this is due to the cost and extra resource required to respond to Network Rail's plan to reduce the number of suppliers for track renewals and in part due to internal operating difficulties which are being addressed. The hiatus in the commissioning of signalling projects appears to have ended, and combined with the additional track renewal work referred to previously, offers a much improved outlook for the second half of the year.

**Engineering & Plant Services** in southern Africa continues to enjoy strong growth in both the equipment and engineering divisions, assisted by a robust economy and continued government investment in infrastructure

In the **Networks** business, activity has been dominated in transmission by the National Grid Alliance (in conjunction with AMEC and Mott MacDonald) together with the contract with EDF Energy Solutions, and in telecommunications, by activity in support of the digital switch-over for television broadcasting.

#### **Strategic developments**

The acquisition of DML was completed in June and endorsed by the Office of Fair Trading.

Babcock announced on 31 August that its offer to acquire the ordinary share capital of International Nuclear Solutions plc ("INS") at 63 pence per share had closed. At this time the Babcock shareholding in INS stood at 64%.

#### **Summary**

The overall trading environment in Babcock's market sectors remains excellent and continues to offer significant organic growth opportunities throughout our business portfolio. Babcock will announce its interim results on 13 November 2007.

-Ends-

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