30 September 2008

Babcock International Group PLC

Pre-close Trading Statement

Babcock International Group PLC (Babcock) makes the following statement on trading for the first half of the 2008/09 financial year, prior to entering its close period ahead of announcing half year results on 11 November 2008.

Trading for the Group remains strong and is in line with our expectations that this will be another year of excellent progress for Babcock. The Group's cash flow performance remains strong and gearing ratios are comfortably within both internal and external benchmarks. The Group's debt position remains very secure, supported by a five year committed debt facility of £600 million negotiated last year.

Contract Awards

A number of milestone contracts have been signed since the beginning of the financial year. This has increased our order book to a record level of over £5 billion.

- The C$250 million (£125 million) five year contract with the Canadian Government to provide in-service support for their Victoria class submarines represents our first opportunity to utilise our submarine expertise in international markets.
- The manufacturing contracts for the future aircraft carrier project (CVF) were signed at the beginning of July and we were awarded a contract for £675 million to construct the bow sections and to carry out the assembly and completion of the ships at our dockyard in Rosyth.
- The 30 year contract to provide training and training support for the Royal School of Military Engineering (RSME) was signed at the beginning of September. This contract, worth £1.5 billion to Babcock, provides significant opportunities for the Group to extend its position in the military training market.

Our pipeline remains strong and we expect further significant contracts to be signed in the near future.

Divisional Review

Marine, our largest division, has had a very successful first half benefiting from the steady programme of warship and submarine refit projects and in-service maintenance work.

New contracts at Devonport are currently being negotiated in line with the Heads of Terms signed in October last year. A Process Commitment Document will be signed in early October as we continue to progress negotiations on the Terms of Business Agreement (ToBA). As a result there will be no delays to new contracts being placed or synergies being realised. By 2011, we expect synergies to include an extra £10 million (on an annual basis) in addition to the originally identified £4 million. We expect final signature of the Terms of Business Agreement to take place in the summer of 2009, when the Ministry of Defence can conclude our ToBA at the same time as other Maritime Change Programme initiatives.

A new business unit has been formed within the Marine division to bring together the engineering, design, systems integration and platform management capabilities across the Group. This creates one of the largest organisations of its type in the UK with some 1100 engineers and technical staff, and consolidates our leading position in the UK Defence sector. This business unit enables us to continue developing our international naval support activities.

The contracts within the **Defence** division continue to perform as expected. The RSME contract signed at the beginning of September will become operational on 1 January 2009 and will be worth some £50 million in revenue per annum. The 2009/10 financial year will be the first full year of operation when significant profits will be realised. Financial close on the Hackney Building Schools for the Future (BSF) contract has been delayed further but we expect progress to be made in the coming weeks. The Airports baggage handling business has had a good first half, building on its strong relationship with BAA and excellent track record at Heathrow.

The **Rail** division continues to focus on recovery and delivering long term financial improvements. The Track and Signalling business units have recovered well with a steady flow of orders under the long term framework agreements and we are rebalancing the business to focus on these types of contracts. The Projects business remains difficult and has two underperforming contracts which will adversely impact the Rail division's results in the first half. We expect this to reverse in the second half and as a result we expect the division to have a similar financial profile to last year.

BNS Nuclear Services has made good progress in the first half and will show the benefit arising from the integration of Alstec, INS and Strachan & Henshaw. The markets for operational support remain strong and we are well placed in these markets benefiting from our scale and expertise. In addition we are in discussion with various parties on the UK's nuclear new build programme.

In the **Networks** division the Transmission business continues to see a steady flow of work through its alliance contracts, although scarcity of resource remains an issue. Significant new opportunities within the telecommunications market bode well for the medium term, whilst the Digital Switchover programme provides a steady flow of work.

The **Engineering and Plant** division has made further strong progress in the first half. South Africa's focus on improving and extending electricity supply is driving increased demand for the power generation support business and increased orders for the Powerlines business. The Equipment business has seen further growth in the order book for Volvo plant, with demand from the mining (in particular coal mining) and construction sectors continuing.

Exceptional Items – Discontinued Businesses

The Group will report an exceptional post tax charge of £13 million in the first half following a settlement being agreed by Babcock and other parties with Tesco Stores Limited. As previously disclosed, Babcock was in dispute with Tesco in relation to matters arising out of a contract for the design and construction of tunnelling works for the store at Gerrards Cross, for which the Peterhouse Group had provided a Parent Company Guarantee. This contract was originally entered into by the civil engineering division of the Peterhouse Group which was sold, by Peterhouse, prior to Babcock's acquisition of the Peterhouse Group in 2004.

Outlook
Overall, trading conditions across the Group have been strong during the first half. The Group continues to perform in line with our expectations, with weakness in the Rail division more than offset by improved performance across the rest of the Group.

The major contracts signed in the first half have further strengthened our order book and our long term prospects. We remain confident that this will be another year of excellent progress for Babcock.

Enquiries

Babcock International Group PLC

Peter Rogers – Group Chief Executive	020 7291 5000
Bill Tame – Group Finance Director	
Terri Wright – Head of Investor Relations	

Financial Dynamics

Andrew Lorenz	020 7269 7121
Sophie Kernon	