



29 September 2010

Babcock International Group PLC Pre-close trading statement and pro forma segmental analysis

Babcock International Group PLC (Babcock or the Group) is the UK's leading engineering support services company. We are issuing this trading statement before entering a close period on 1 October 2010. The Group's half year results will be released on Tuesday 9 November 2010.

Group overview

During the first half of the financial year the Group has continued to make good progress. Trading and the financial and operational performance of the Group's long-term support contracts have been strong and in line with our expectations. The Group's order book now stands at c £12 billion with the pipeline of opportunities that are currently being bid valued at around £5 billion.

As a major supplier of critical support services to the government, in particular the Ministry of Defence (MoD), over the past few months we have been involved in active dialogue with Ministers to discuss how we can help them achieve both the short and medium term savings they need. Although the outcome of these discussions will not be known until the Comprehensive Spending Review and Strategic Defence and Security Review are published, we are confident that in this environment the need for more efficient delivery of technical and support services will lead to an increased demand for outsourcing. We believe our business model and track record of identifying and delivering cost effective solutions and long-term operational efficiencies will provide significant additional opportunities in the medium to long-term.

VT Integration

The acquisition of VT Group plc (VT) was completed on 8 July 2010. Reflecting the high level of co-operation between Babcock and VT prior to completion, all businesses had been rebranded and the new divisional structure announced by 12 July. Since that time, all corporate functions have been fully integrated, divisional management teams have been put in place and the businesses are focused on maximising the opportunities created by the acquisition. We remain confident of achieving the merger benefits of £50 million per annum (pre-tax), both in total and in line with expected timing, along with £8 million (post-tax) of financial efficiencies by the end of the 2013 financial year.

Financial performance

Following completion of the VT acquisition, the Group has been reorganised into four reporting divisions to reflect the key markets and business streams of the Group. The new reporting structure will be adopted for the half year results and in preparation for this we have

set out pro forma combined Group results for the full year to 31 March 2010, based on published results for both companies. These are set out below this statement.

Cash performance for both Babcock and VT prior to completion was strong and the net debt to EBITDA ratio at the time of completion was approximately 2.8 x. Since completion, cash performance has been excellent and net debt at 30 September is likely to be better than our planning assumptions. The Group's financial position remains secure and we continue to operate comfortably within covenanted debt levels.

Divisional performance

Marine

The Marine division continues to perform strongly across all its business streams, with margins at similar levels to last year.

As the Royal Navy's key support partner in the maritime sector, we deliver submarine and warship refit programmes, in-service engineering support and naval base management services. Under the Terms of Business Agreement (ToBA) which governs the commercial terms of these services, over the next 15 years we have guaranteed a level of savings for the MoD. At the same time we will be seeking to deliver further savings, providing additional financial benefits to both the MoD and Babcock. In the year to March 2010, the MoD has benefited from savings in the order of £50 million, which exceeded original estimates, through our support for the Royal Navy.

The Queen Elizabeth class aircraft carrier programme is progressing well and is on schedule with construction work continuing at ship yards around the UK. Dock modifications at the final assembly yard in Rosyth are now largely complete with delivery of the 1,000 tonne Goliath crane expected in February 2011. The first bow section, constructed at our Appledore facility in Devon, has been delivered to Rosyth and further blocks will be delivered throughout 2011.

Our presence in international submarine support markets continues to develop. In Canada as part of the Victoria In-Service Support Contract (VISSC) we have signed the contract to deliver HMCS Chicoutimi's Extended Docking Work Period (EDWP). This is expected to be worth in the order of £90 million, extending the value of the initial 5 year VISSC to around £225 million, with the total value of the work scope over the envisaged 15 year support period estimated at c £900 million.

In Australia, South Korea and Spain we continue to develop our presence on new programmes by leveraging off the weapons handling systems expertise within Intec, our integrated technology business, and the Marine division's wider maritime support capabilities.

Defence and Security

The newly formed Defence and Security division delivers training and equipment support to all three armed forces.

During the first half of this year we have experienced no significant change in market conditions and our major customer, the MoD, continues to focus its resource on front line operations whilst seeking the most cost efficient support solutions.

Integration across the division is well advanced and as part of this process we have identified a number of areas where, by bringing the VT and Babcock operations together, we will be

able to deliver operational and cost efficiencies for our customers over both the short and medium-term. We are also looking at a number of ways in which our presence and established track record working with all three armed forces can be used to deliver broader and more cost efficient long-term solutions for our major customer.

Contracts continue to perform in line with our financial expectations and to meet or exceed our customers' KPIs, delivering high standards of technical support and operational availability.

As part of both the UK Military Flying Training System (UKMFTS) and Future Strategic Tanker Aircraft (FSTA) programmes we have made significant progress, completing construction of the new facilities required at RAF Valley and RAF Brize Norton respectively and implementing the Information and Communications Technology (ICT) systems to support the operational requirements of each project.

The division now has a significantly strengthened position as the leading provider of military training. Our contracts at the Royal School of Military Engineering, for the Royal Electrical and Mechanical Engineers and for the Royal Navy are all performing well, delivering improved standards of training and releasing operational personnel for active duty.

Support Services

The Support Services division provides technical expertise to support and manage a range of critical assets and infrastructures and is the UK's largest provider of vocational training and school improvement services. The division is also responsible for managing the Group's Regional Prime contracts for Defence Estates. These services are delivered through the Critical Assets, Nuclear, Infrastructure, Education and Training and Rail operations within the division.

During the first half of the year markets across the division have been stable. The current economic climate continues to constrain both public and private sector budgets but for the division as a whole, revenue has been in line with our expectations. Margins for the division are benefitting from improving performance in the Rail and Critical Assets businesses. Existing contracts are performing well and we have had a steady flow of business coming through from pipeline to order book.

As anticipated, the civil nuclear decommissioning market remains subdued and in Infrastructure, in contrast to previous years, we have not experienced the volume of additional work being injected into the Regional Prime contracts whilst future spending requirements are assessed by the customer. The Rail business continues to perform profitably.

In this current economic environment we have identified a number of opportunities where we believe we can use the increased breadth of capabilities within the division, which has been a result of the VT acquisition, to help provide through-life support or end-to-end services for public and private sector customers. In particular in the Education and Training business, where contracts are performing well, we are looking at a number of ways to transfer our training expertise to other customers, helping them reduce their overhead costs whilst maintaining or improving their output in terms of qualifications and educational attainment.

International

In South Africa, the economic environment continues to improve steadily. This has been reflected in a pick-up in demand in the equipment market although conditions remain competitive.

In the US, the defence business has performed in line with our expectations with revenue from lower margin base operation business declining and higher margin technical and logistical services business increasing.

In the Middle East we are identifying, evaluating and bidding a range of opportunities for the divisions, where we believe we can build on our UK expertise and track record to provide infrastructure, engineering and training support in both defence and civil markets.

Order book and bid pipeline

The Group's order book is currently around £12 billion, with the majority of this year's, and a high proportion of next year's, revenue already contracted. All our contracts continue to perform in line with our expectations.

In common with peer companies, since the time of the general election and as the Government prepares for its Comprehensive Spending Review, we have experienced some slow-down in the number of contracts coming out to tender. However, the bid pipeline remains healthy at around £5 billion representative of the significant growth opportunities that are available to us in both the UK and overseas.

Outlook

The Group's key markets remain attractive with a number of significant growth opportunities where our market position, scale and expertise place us in a strong position from which to benefit. We believe the current economic climate and our customers' requirement to achieve significant savings may create a number of additional outsourcing opportunities in the medium to long-term. Whilst current pressures on spending will have some short-term impact on revenue growth, during this period earnings growth will benefit from both synergy savings and improving contract margins in the Support Services and International divisions.

The strength of the order book and bid pipeline, our involvement in long-term programmes and track record of delivering efficiencies for our customers mean that we remain confident in the outlook for 2010/11 and thereafter.

Babcock International Group PLC
Pro forma financial information for the 12 months to 31 March 2010

	Group £m	Joint Ventures* £m	Total £m
Revenue			
Marine	1,014.6	-	1,014.6
Defence and Security	505.8	109.8	615.6
Support Services	1,004.7	40.7	1,045.4
International	499.3	-	499.3
Total	3,024.4	150.5	3,174.9
Operating profit			
Marine	119.1	-	119.1
Defence and Security	68.3	18.3	86.6
Support Services	65.4	0.5	65.9
International	26.6	-	26.6
Other	(16.5)	-	(16.5)
Total	262.9	18.8	281.7
Interest	(22.9)	(10.9)	(33.8)
Profit before tax	240.0	7.9	247.9

* Joint venture profit is inclusive of ifric 12 investment income but excludes joint venture bank interest

Recent VT Group plc Annual Report and Accounts, including the Report and Accounts for 2009/10, are available at www.babcock.co.uk.

Enquiries

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Presentation and webcast

A presentation for analysts reviewing the pro forma segmental analysis will be held this morning at 9.00 am at FD, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. To attend please contact FD on 020 7269 7291. An audio cast and copy of the presentation will be available at www.babcock.co.uk.