



28 September 2011

## **Babcock International Group PLC Pre-close trading statement**

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 our close period on 1 October 2011. The Group's half year results will be released on Tuesday 8 November 2011.

### **Group overview**

During the first half of this financial year the Group has experienced good trading conditions in a market where our key customers face financial and budgetary constraints. We believe this environment will continue to drive an increase in new outsourcing opportunities in both the private and public sectors, as evidenced by the continuing growth of our bid pipeline. Our business model and track record of delivering cost efficiencies for our customers places us in a prime position to take advantage of these new opportunities.

### **Financial review**

The Group's financial performance remains consistent with our expectations at the time of our Interim Management Statement on 7 July 2011 and our preliminary results announced on 17 May 2011. There has been no change to the financial performance of our major contracts or the level of savings we are able to deliver to our customers.

During the first half we have continued to benefit from strong cash generation across the businesses and as a result we expect to see further reduction in net debt at the half year. We remain confident of achieving a net debt to ebitda ratio of less than 2 times by the end of this financial year.

Synergy benefits arising from the VT acquisition continue to flow through into the divisions at the levels anticipated and as scheduled. The businesses are now fully integrated and our focus is on exploiting the growth opportunities which arise from the strength of the combined businesses.

### **Order book and bid pipeline**

We continue to have excellent visibility of future revenues with the order book remaining strong at around £12 billion as our divisions continue to win a steady flow of contracts. The following contracts have recently been brought into the order book.

#### **Support Services**

- Mobile Asset Management – We are delighted to announce that we have signed a ten year contract with Lafarge for the management and maintenance of the Heavy Mobile Equipment within its UK Aggregates and Cement businesses. The contract value for the UK is £50 million.

We are now in exclusive negotiations with Lafarge to roll out this innovative management and maintenance model across its global operations, with the US being the next territory. The contract value for this phase is likely to be in the region of a further £100 million.

This contract marks a global first in the mining and construction fleet management sector.

- Nuclear decommissioning – At Sellafield, a joint venture between Babcock and Balfour Beatty has been awarded a contract by Sellafield Ltd for Phase 1 of Silos Maintenance Facility (SMF), a key part of the hazard reduction programme at the site. This phase will deliver the concept and preliminary designs and Phases 2 and 3 will see the project through detailed design, construction and commissioning scheduled for mid 2017. The total project value is expected to be in the region of £150 million.

The award of this contract means that over the past 12 months, Babcock, with various partners, has secured the last three major projects to be awarded at Sellafield. The first two projects are progressing well. Box Encapsulation Plant Product Store and Comprehensive Import Export Facility project (total scheme in excess of £200 million) is proceeding well through Phase 1. Following successful completion of Phase 1 of the Pile Fuel Cladding Silo Retrieval Project (total scheme around £120 - £150 million), Babcock and its jv partner have now reached agreement with Sellafield Ltd and the Nuclear Decommissioning Authority to move into Phase 2 of the project.

#### Defence and Security

- As part of the MoD's new framework for the management of its White Fleet requirements, Babcock has been awarded a four year contract as the Service Provider. This contract is expected to be worth up to £27 million over four years and will come into operation over the next few months. In this role we will be working with the MoD to manage their fleet more efficiently by increasing vehicle utilisation and reducing costs. As the Service Provider Babcock will now identify the optimum method of procuring and maintaining the fleet. Through a co-operation agreement Babcock will continue to deliver the White Fleet service until February 2012 at a value of up to £50 million, whilst these new contracts are let.

The bid pipeline has continued to grow as anticipated and now stands at £10 billion. This includes more than 20 bids in excess of £100 million and includes significant opportunities in the civil nuclear, defence infrastructure, education and training markets as well as for aircraft support under MFTS (Military Flying Training System). In addition, our Marine and Technology business continues to benefit from 15 years' visibility of warship and submarine refit and support activities which are not included in the pipeline. During the period the MoD decided to retain its in-house solution for the Maritime Equipment Transformation programme, for which we had been selected as the sole industry bidder.

#### Strategic review

As announced in July, we are considering options, including possible disposal, for our US defence operations and we will update in due course.

#### Outlook

We remain confident that the current economic climate will continue to create significant medium and long-term growth opportunities for our businesses where we are well placed to benefit from the scale of our operations, the breadth of our experience and our track record of delivering both operational and financial efficiencies.

The Board therefore remains confident in the outlook for the Group and, supported by the excellent visibility in the order book and bid pipeline, looks forward to achieving good progress this year and thereafter.

**Analyst and Investor Seminar**

A seminar for analysts and investors focussing on activities within the Support Services division will be held this morning, 28 September 2011, from 8.30 am. For details please contact 020 7269 7291. An audio webcast of the seminar will be available at [www.babcock.co.uk](http://www.babcock.co.uk) during the afternoon of 28 September. No material new financial information will be provided during the presentations.

**Enquiries**

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