25 January 2011

Babcock International Group PLC
Interim Management Statement

Babcock International Group PLC (Babcock or the Group), the UK's leading engineering support services company, issues the following Interim Management Statement for the period from 1 October 2010.

Overview

The trading environment for the Group remains broadly as outlined in our half year results issued on 9 November 2010. The performance of the Group is consistent with our expectations at that time, with our markets continuing to provide significant opportunities for growth. The Group's order book remains stable at around £12 billion reflecting the constant flow of new contracts, rebids and contract extensions from the pipeline into the order book. As anticipated, the pipeline of bids at PQQ or ITT stage has increased and now stands at £6 billion. The Board therefore remains confident in the outlook for this financial year and thereafter.

As part of the Government's ongoing discussions with its key suppliers, we continue to be involved in positive dialogue with our key customers at the Ministry of Defence and with the Cabinet Office. We expect discussions with the Cabinet Office to be concluded by the end of the financial year.

We anticipate the outcome of the Comprehensive Spending Review (CSR) and Strategic Defence and Security Review (SDSR) will lead to significant new outsourcing opportunities. We believe our scale, expertise and track record of delivering financial and operational efficiencies will place us in a strong position

The VT integration is progressing speedily and efficiently and the business units remain focused on maximising the significant benefits of bringing the two complementary businesses together. The delivery of merger benefits is on track and we are confident of achieving £50 million (pre-tax) in total and as scheduled, achieving a run rate of £11 million by 31 March 2011, with annualised financial efficiencies of £8 million already generated. The strategic review of the business portfolio is continuing. As previously announced, we do not consider the Waste operation to be a strategic growth opportunity for Babcock and we are in discussions with Wakefield Metropolitan District Council and interested parties regarding exit options.

Financial Review

As reported in our half year results, cash generation during the first half was particularly strong and subsequently this momentum has been sustained. Cash has been used to pay down debt and we expect the net debt to ebitda ratio at the year end to be substantially better than our acquisition planning assumptions.

The programme to refinance the Group's £400 million Bridge Facility is progressing well and this will be followed by the refinancing of the £600 million Revolving Credit Facility early in the next financial year.

Divisional Review

To reflect the growing importance of technology as a key driver of the business, the Marine division has been renamed **Marine and Technology.** The division has continued to perform strongly across all its business streams, with margins maintained at similar levels to those achieved in the first half of the year.

As a key support partner to the Royal Navy, we continue to work together to evaluate the implications of the SDSR and discuss how, under the Terms of Business Agreement (ToBA), we can deliver additional savings whilst maintaining the high levels of availability and operational efficiency required.

In Canada we continue to make good progress on HMCS Chicoutimi's Extended Docking Work Period (EDWP) and are providing additional support at the Canadian Fleet Maintenance Facility on EDWPs for HMCS Victoria and Windsor as they prepare to return to sea during 2011. We have recently been down selected as one of three bidders for a contract with the Canadian Government to provide refit and upkeep support to their fleet of 30 minor warships and naval auxiliary vessels. We expect tenders to be submitted during the next few months and contract award announced during the second half of the next financial year.

We have expanded our resources in Australia and New Zealand. With a number of experienced UK managers now based in Australia, the business is well placed to build on the strength and experience in the UK to develop the significant opportunities available in the naval support market in the region. We have recently been down selected to bid for refit and upkeep support contracts for the Australian surface ship fleet, the first of these is for their eight Anzac frigates. We expect announcement of this contract award within the next financial year. A further package is expected to come to market in mid 2011.

The **Defence and Security** division's financial performance has been in line with our expectations and the division is continuing to deliver high standards of training, technical support and operational availability for the UK's armed forces.

The division has continued to progress its integration plans and the delivery of targeted acquisition synergy savings is on track. Following on from the SDSR, we have identified a comprehensive list of cost saving initiatives for our customer where our experience of working with all three armed services will enable us to provide them with more cost-efficient, long-term solutions.

All the division's major contracts continue to perform as expected. We have benefitted from the cancellation of DTR Package 1 through a short extension to our training contract at Bordon and Arborfield. As the largest provider of military training in the UK, we are pursuing a number of opportunities where we can assist the MoD with the efficient delivery of its long-term military training ambitions.

There has been little change since the half year results to the market conditions for the **Support Services** business units, where customers' budgets remain constrained by the current economic climate. The financial performance of the division's key contracts remains in line with our expectations.

Integration and restructuring across the division is proceeding well and individual business units are focussed on further rationalisation of overheads and facilities. As a result, in line with our expectations, divisional margins should show some progress in the second half and into the next financial year.

The division has continued to focus on a number of rebids and new opportunities and since the time of the half year results has been successful in re-bids for the £120 million six year baggage handling contract for BAA at Heathrow and the 12 year, £86 million, contract to provide Radiometrics and Calibration services at Sellafield. Opportunities for Education and Training to deliver education improvement services to new education authorities and apprentice training to major new customers are progressing well, as are negotiations to take our fleet management capabilities to new customers in the civil market

In the **International** division the South African equipment business has experienced ongoing recovery in demand. The power generation support business has seen a continuing strong requirement for outage support for Eskom.

In the US, the defence business has performed in line with our expectations. Evergreen Unmanned Systems, the Unmanned Aerial Systems (UAS) support business we acquired in September is performing well and will help to support growth in higher margin technical services operations. We have been selected as one of four contractors to install Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems for the US navy and expect to share in contracts worth in the order of $840 million over the next three years.

We remain confident that there are a number of opportunities in the Middle East where we can exploit our UK expertise to create a strong business. Business development teams in the area are actively pursuing a number of prospects.

Outlook

As stated at the time of our half year results, we believe the key markets in which the Group operates remain attractive with significant long-term growth opportunities in both the UK and overseas. In addition, the breadth of our capabilities and track record of delivering both operational and financial efficiencies will place us in a strong position as new outsourcing opportunities are created. In the short-term, earnings will benefit from both synergy savings and improving contract margins in the Support Services and International divisions.

The strength of our order book and bid pipeline along with our involvement in long-term programmes gives us excellent visibility of future revenue streams. We are confident of achieving our expectations for this financial year and expect to make further good progress thereafter.

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A conference call for analysts and investors will be held at 8.00 am this morning. For dial in details please contact FD on 020 7269 7291. An audio-cast of the call will be available at www.babcock.co.uk