31 January 2012

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 2011.

Overview
Trading conditions for the Group remain positive and our performance remains consistent with our expectations at the time of our half year results announced on 8 November 2011.

Within our markets, customers continue to experience financial and budgetary constraints and this economic environment is creating opportunities for our distinctive engineering based, long-term support model. Across the Group we are tracking a significant number of new outsourcing programmes and discussions are ongoing with our major customers about their plans for future outsourcing opportunities.

Our order book and bid pipeline have remained stable at around £12 billion and £10 billion, respectively, since last reported in November. Since our half year results announcement in November, the Group has been successful in both achieving extensions to existing contractual arrangements and securing preferred bidder status on a number of new long-term contracts with combined expected total revenue of around £2 billion. These will move from the pipeline into the order book as they become operational over the next few months.

The Board therefore remains confident of delivering good progress this year, in line with our expectations, and looks forward to building on this further in 2012/13.

Financial review
Cash generation across the business remains strong and, as previously indicated, net debt at 31 March 2012 should represent less than 2 times EBITDA.

As reported in November, synergy benefits arising from the combination with VT Group plc are being realised in line with plan.

Operating review
The **Marine and Technology** division continues to perform well across all business streams and margins have remained robust as further cost savings are delivered to customers. HMS Vigilant is expected to conclude her long overhaul period (refuel), on schedule, before the end of the financial year and there has been no change to the programme of warship refit work being undertaken at our dockyards in Devonport and Rosyth. As planned, work also continues to increase at Rosyth on the assembly programme for the Queen Elizabeth class aircraft carriers which remains ahead of schedule.

Overseas, we are making good progress in our operations in Canada and Australia and continue to pursue opportunities to expand our involvement in existing and new defence programmes. We are also exploring longer-term opportunities to take our proven naval support capabilities into new markets.

In **Defence and Security**, training operations for the Army, Navy and Air Force are all performing well. As the MoD considers options for its future tri-service training requirements, the contract to train the Royal Electrical and Mechanical Engineers at Bordon and Arborfield has been extended until 2014.

Equipment support and fleet management contracts continue to perform in line with our expectations. We expect decisions on future packages of work under Project Phoenix - White Fleet Management - before the end of the financial year.

We are very encouraged by a range of activities being undertaken by the MoD which we anticipate will lead to tracking opportunities being moved into the division's bid pipeline during the 2012/13 financial year.

Since the half year results in November 2011, the **Support Services** division has secured preferred bidder status on a number of new contracts as well as extensions to existing contracts with total combined expected contract revenues of around £2 billion.

The Nuclear business continues to make good progress. The Babcock Dounreay Partnership (a joint venture between Babcock, 50%, CH2M HILL and URS) has been selected as preferred bidder for the decommissioning of the Dounreay site. At Sellafield, current contracts are performing well and Babcock has been named as preferred bidder and prime contractor for three of the eight Design Services Alliance (DSA) packages. Under the contracts Babcock will provide all initial design works for decommissioning related projects at the site. Sellafield Ltd anticipates the eight DSA packages in total will be worth up to £1.5 billion over a 15 year period.

The Education and Training business has made good progress in the period successfully securing preferred bidder status on new contracts to provide training to the London Fire Brigade and to provide education and inclusion support and improvement services for Devon County Council in schools across the county. We were unsuccessful in our bid to provide apprentice training at Sellafield where the in-house solution was retained.

We are very pleased that the BBC World Service contract to provide transmission and distribution support has been successfully tendered and extended for a further 10 years and the contract to maintain and upgrade overhead power lines for National Grid has also been extended for a further five years.

The Infrastructure business has experienced strong performance on both of the current Regional Prime contracts which run through to 2014/15 when the Next Generation Estates contracts are expected to become operational. The Defence Infrastructure Organisation continues to progress its competitive processes for the Scotland and Northern Ireland Prime, the Housing Estate Prime and the National Training Estate Prime with award of these contracts now expected in 2013.

We announced in September that we had signed the first 10 year contract with Lafarge for the management and maintenance of their heavy mobile equipment (HME) within its UK Aggregates and Cement businesses. Following the successful implementation in the UK, negotiations with Lafarge continue and we have now taken on management of their HME in Canada and the USA. This contract is expected to be worth an additional £100 million over a 10 year period. Work has now commenced on the next phase.

Elsewhere in the division current contracts are performing in line with our expectations and synergy benefits continue to flow through into the businesses as targeted.

Within the **International** division, the South African operations continue to perform well with demand for equipment in the mining sector remaining robust. Support for Eskom in its power stations has seen some slippage as outages are deferred but contract awards for power line construction and refurbishment have been buoyant.

In the US, our defence support operations are experiencing some delays in the award of task orders under IDIQ (indefinite duration indefinite quantity) contracts. We continue to explore options for the US defence operations and will update on progress when appropriate.

Outlook

As stated at the time of our half year results, we believe the key markets in which the Group operates remain attractive and that the current economic climate will continue to create significant medium and long-term growth opportunities, both in the UK and overseas.

In this environment we believe we are well placed to benefit from the scale of our operations, the breadth of our experience and our track record of delivering operational and financial efficiencies.

The Group continues to benefit from excellent visibility through its long-term contracts, strong order book and bid pipeline. The Board therefore remains confident of delivering good progress this year, in line with our expectations, and looks forward to building on this further in 2012/13.

Enquiries

Babcock International Group PLC	**020 7355 5300**
Peter Rogers	
Bill Tame	
Terri Wright	
FTI Consulting	**020 7269 7291**
Andrew Lorenz	07775 641 807
Nick Hasell	

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