



31 January 2013

## **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 2012.

### **Overview**

The Group has traded well during the period. We remain confident of meeting our expectations for this financial year, as set out at the time of our half year results announced on 6 November 2012, and of delivering strong progress on last year. Market conditions remain positive, bidding activity is high across the Group and we continue to track significant new outsourcing opportunities.

### **Financial review**

Cash generated from operations across the business remains strong. During the period we purchased LGE Process from The Weir Group PLC for £23 million. We have also received a net cash payment of £10 million after achieving financial close and exiting the waste management contract for Wakefield Metropolitan District Council. As previously indicated, net debt is expected to be approaching 1.5 times ebitda by 31 March 2013.

Progress continues on the introduction of alternatives to current pension provision which, combined with the Government's proposals for public sector pension reform under the 'New Fair Deal', should help to mitigate the accounting volatility arising from IAS19. As previously stated, the changes to the IAS19 accounting standard being introduced with effect from the 2013/14 financial year will have no impact on our reported results for the financial year ended 31 March 2013 and will not impact cash contributions to the Group's pension funds.

### **Operating review**

The **Marine and Technology** division is performing well across all business streams in the UK and overseas, with financial results remaining in line with our expectations.

The division continues to negotiate the Maritime Support Delivery Framework (MSDF) with the Ministry of Defence. This contract will integrate the Warship Support Modernisation Initiative (WSMI) contract scope at HMNB Devonport and Clyde with the delivery of the Surface Ship Support Alliance refit programme and other warship and submarine contracts carried out under our Terms of Business Agreement nominated roles. This is expected to become effective in the 2013/14 financial year.

The acquisition of LGE and the recent £30 million, 3 year, contract won by the division to design and build 70 subsea structures for BP as part of its North Sea offshore redevelopment project, support the division's commercial activities and provide an entry point to exploit new commercial marine markets, including the oil and gas market.

In **Defence and Security**, training, equipment support and infrastructure activities for the Army, Royal Navy, Royal Air Force and Defence Infrastructure Organisation are all performing well and in line with our expectations at the time of our half year results.

The division has been selected as preferred supplier by AgustaWestland to deliver the support to the Sea King Integrated Operational Support (SKIOS) contract, expected to be worth in the order of £25 million over the next three years.

In addition to its operational activities, the division remains focused on preparing bids for the significant UK and international opportunities in its pipeline and has now submitted bids for all six Next Generation Estates contracts.

The **Support Services** division continues to make good progress across its business units with all contracts performing in line with our expectations. During the period the division won contracts totalling in excess of £100 million. These include an 18 month, interim contract awarded by the London Fire and Emergency Planning Authority to the Mobile Assets business to maintain their fleet of vehicles and equipment, expected to be worth around £20 million over the period, as well as electrification upgrade work on the West Coast mainline for the Rail business and additional works under its framework agreements with Network Rail.

For the **International** division, despite the extended holiday period in South Africa over December, the business performed well, continuing to experience good demand for equipment and plant hire. The quiet holiday period also created opportunities for the power generation support business to carry out outage maintenance activities for Eskom. Continuing weakness in the Rand is, however, likely to limit progress in the division's full year results in Sterling terms.

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

The order book stands at just over £12 billion from around £12.5 billion at the time of our half year results announced on 6 November 2012.

The bid pipeline has increased to £14 billion from £13 billion in November 2012. The key additions to the pipeline have come from the Support Services division, where the Rail business will be rebidding its framework contracts with Network Rail over the next six months and new training opportunities and further work for the BBC are now being bid.

During the period we have won or have been selected as preferred bidder for contracts totalling around £600 million and await decisions on contracts totalling around £800 million before the end of this financial year. In addition, award dates for contracts valued at c £600 million have moved from this financial year into the first half of the next financial year.

#### **Outlook**

Babcock remains well positioned to help our customers develop cost efficient support solutions and we believe the current economic climate will continue to create significant medium and long-term growth opportunities, both in the UK and overseas.

The scale of our order book continues to provide excellent visibility of future revenue streams across the Group. This position is further strengthened by the medium to long-term growth opportunities which continue to flow into tracking and then into the bid pipeline.

The Board therefore remains confident of meeting its expectations for this financial year and delivering strong progress on last year.

Ends

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A conference call for analysts and investors will be held at 8.00 am this morning, access details below

Dial in number	020 3139 4830
Toll-free number	0808 2370030
Participant PIN	11948872#

An audio-cast and replay details of the call will be available at [www.babcockinternational.com](http://www.babcockinternational.com)

**Full year results**

Babcock will announce its full year results for the year ended 31 March 2013 on Tuesday 14 May 2013.