



30 September 2009

## **Babcock International Group PLC Pre-close Trading Statement**

Babcock International Group PLC (Babcock), the engineering support services company, makes the following statement on trading for the first half of the 2009/10 financial year, prior to entering its close period. Babcock will announce half year results on 10 November 2009.

### **Overview**

For the Group as a whole, trading throughout the first half has remained consistent with our expectations at the time of our preliminary results announcement on 12 May. Revenue growth in the Marine and Defence divisions has been strong; as anticipated, revenues were lower in Rail and in the Equipment business in South Africa, although elsewhere market conditions have generally remained resilient and margins strong.

Our business is based on long-term contracts and framework agreements where we work in partnership with our customers to deliver cost efficient solutions. We believe the strength of our business model and our track record of delivery place us in a strong position from which to benefit as public spending becomes increasingly constrained.

### **Divisional Review**

**Marine** has had a very successful start to the year, with strong performances from all business streams within the division. We are increasingly involved in the full life cycle of projects from concept through to in-service support and disposal.

The Terms of Business Agreement (ToBA) with the Ministry of Defence (MoD) is progressing and we hope this will be concluded by the end of this calendar year. In the meantime, we continue to work with the MoD under the key principles agreed in 2007 and the long-term partnering structures we already have in place with them ensure significant efficiency savings for the Royal Navy and gain-share benefits for Babcock.

Performance remains strong in the UK submarine and surface ship businesses with the outlook supported by the high visibility of the forward refit programme. The division continues to benefit from an increasing role in the Queen Elizabeth class aircraft carrier project, with total project revenue to Babcock currently expected to be in the order of £1 billion. At Rosyth, the first sections of the new carriers have arrived and work on other elements is progressing well. Work to prepare the docks for assembly of the two carriers is complete.

The Integrated Technology business is developing its involvement in a number of key future naval defence projects in the UK and overseas. In Canada, the Victoria In-Service Support Contract is performing well, and we are moving towards the first submarine's extended docking work period. In Australia, where the government is expected to spend £65 billion replacing and upgrading its military assets in the next 10-15 years, we continue to develop Tier 1 relationships with the customer building on the strength of our expertise.

In the **Defence** division, key contracts continue to perform well. Both Regional Prime contracts have achieved all key targets and requirements for additional work are still being received. Delivery at the RSME continues to be on track and feedback from the customer remains positive as they achieve their aim of releasing trained personnel for operational duties.

In the **Rail** division, restructuring has been ongoing throughout the first half following the reduction in track renewals volumes announced by Network Rail in March. This process is nearing completion and divisional performance is expected to be close to break even in the first half.

Network Rail has today announced that Babcock's SB Rail joint venture with Swietelsky Baugesellschaft m.b.H has been unsuccessful in its bid for the renewal of the five-year contract to deliver High Output Track Renewal operations. Over the next three months the Rail division will withdraw from the High Output track renewals market. This is expected to impact the division's reported operating profit in the current financial year by around £1.5 million and £2.0 million in the 2010/11 financial year, inclusive of restructuring costs, (revenue £10 million and £35 million respectively). We are reviewing options for the division.

Within the **Nuclear** division, revenue from generation support contracts and projects continues as expected. Although delays in spending by the NDA have caused a temporary hiatus in contract awards in the decommissioning market, margins within the division remain strong. New technologies for waste encapsulation developed by Babcock are being trialled at Sellafield and offer excellent prospects for the future.

As announced on 18 September, Babcock has agreed to acquire UKAEA Limited (UKAEA) from the United Kingdom Atomic Energy Authority for a net cash consideration of £38 million. This acquisition represents a significant extension to Babcock's existing nuclear skills and provides a Tier 1 position in the civil nuclear market to complement our existing Tier 1 position in the military nuclear market.

Benefiting from the excellent reputation of BNS Nuclear Services, strengthened by the acquisition of UKAEA and the significant additional nuclear resource and expertise within our Marine division, we remain confident about the long term opportunities for the division.

In **Networks** both the National Grid and EDF Energy network alliance frameworks have continued to deliver a steady flow of work at similar levels to last year. The requirement for significant investment in the national electricity grid to enable it to cope with increasing output from renewable energy sources as well as new nuclear power stations underpins our confidence in the prospects for the division.

In South Africa the economic downturn continues to affect the **Engineering and Plant** division. Power engineering remains stable, with the imperative of fulfilling the continuing demand for power driving both generation and transmission infrastructure support. The equipment business has seen little improvement in the level of new orders, which continue to be some 50% below the level seen this time last year, although after-market sales have increased substantially. The Engineering and Plant division's results for the first half are therefore expected to be slightly below the comparable period in 2007/08.

## **Financial Review**

Cash generation has remained strong during the first half and as a result net debt has been reduced from the 31 March position. Completion of the acquisition of UKAEA will occur in the second half with the payment of the consideration from existing debt facilities.

The active management of risk across the Group's pension schemes remains a key priority. During the first half we have completed transactions for the Devonport Royal Dockyard defined benefit scheme and (this month) for the Rosyth scheme, to cap their exposure to increasing life expectancy on their pensioner liabilities. A further transaction for the Babcock Group scheme is expected to complete shortly. We are now assessing options for reducing risk on the remaining liabilities.

## **Outlook**

We remain confident that the Group will again deliver excellent progress this year. The strength of our business model and our track record of delivering cost efficiencies for our customers place us in a strong position from which to benefit in the current economic climate. We have excellent long-term visibility and security of revenues across the business through the strength of the order book and bid pipeline.

## **Enquiries**

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A seminar for analysts and investors will be held from 8.30 am this morning, for details please contact Financial Dynamics on 020 7269 7291.

The presentations will be available by audio cast later today on [www.babcock.co.uk](http://www.babcock.co.uk)