30 July 2015

Babcock International Group PLC (Babcock or the Group)
Annual General Meeting Trading Update

Prior to today's Annual General Meeting, Babcock, the UK's leading engineering support services company, is issuing the following trading statement for the period from 1 April 2015.

Overview

We are on track to deliver our expectations of growth at both the half and full year periods.

We continue to experience strong demand for the critical services we provide to our customers through existing contracts, and business development remains active in our key markets. Since the full year results announcement on 18 May 2015, the order book has remained stable at £20 billion and continues to provide excellent visibility, with 84% of revenue for 2015/16 and 60% of revenue for 2016/17 already in place.

The bid pipeline has also remained stable at around £10.5 billion, and the tracking pipeline continues to provide significant longer-term opportunities for growth.

Operational and financial review

The **Marine and Technology** division continues to make good progress, with a strong performance by the naval marine business, including growth in warship refit programmes and Queen Elizabeth Class carrier procurement activity. Additionally the quarter has seen increased levels of activity in our Australian Naval Ship Management joint venture and the new Dockyard Management contract in New Zealand.

The division has signed a £120 million contract for an extended docking and work package for the Canadian submarine HMCS Corner Brook. The division also won its first significant offshore renewables contract to engineer and construct a 2500-tonne offshore substation for E-ON's Rampion wind farm.

In the **Defence and Security** division, the integration of the Defence Support Group (DSG), which we acquired on 1 April 2015, has started well. DSG consolidates our position as the major vehicle support partner to the MoD and we see clear opportunities for growth within the contract. The business has already secured a contract to overhaul 116 Latvian armoured land vehicles.

As previously advised, revenue from the **Defence and Security** division will be lower in the first half of the year compared to the same period the previous year, but is expected to improve over the second half of the year, benefiting from the anticipated award of the UK Military Flight Training System (MFTS) fixed wing programme in the third quarter of this financial year. Accordingly we expect the division to achieve low single digit growth for the full 2015/16 financial year.

The **Support Services** division continues to show good revenue growth which we expect to be maintained through the financial year, largely driven by the Magnox contract. Dounreay decommissioning is also making good progress. We have been awarded additional work, primarily relating to the transfer of nuclear fuels from Dounreay to Sellafield expected at the time of the initial competition, of which our share will be worth around £250 million.

Cavendish Nuclear was pleased to be awarded a contract for the reference design of a new waste processing facility for Capenhurst Nuclear Services, a new customer which is a wholly owned subsidiary of Urenco. This forms part of a larger project, worth a potential £100 million in total, which will be let in phases over several years. In Canada, our consortium's bid for the Chalk River project, valued at around £200 million, was not successful.

Our Network Engineering business continues to perform broadly in line with expectations. The period has seen increased volumes in Rail, and the business won a contract for resignalling work on the Derry to Coleraine line. The Power business experienced a decline in revenues, which has led to a programme to downsize our operations.

Worcestershire County Council has appointed Babcock as preferred provider on a five-year contract to deliver a wide range of education support services. This is the third County Council contract to be awarded to the division's Education business, making it the largest school support organisation in the UK.

In the **International** division, MCS has successfully retained all 12 existing contracts which came up for rebid in the period. Nine of these were in our emergency services business, which includes air ambulance, search and rescue and firefighting activity. We were unsuccessful in our bid for a new contract to provide aircraft, engineering and maintenance services for the French firefighting fleet but were awarded preferred bidder status for a new contract to provide helicopter emergency medical services to the Languedoc region in France, which is due to begin in November 2015.

Despite successes, including significant new wins in Mozambique and Ghana, MCS' oil and gas business, which accounted for less than 4% of total Group revenue in financial year 2014/15, has been impacted by renewed oil price weakness in recent months and we continue to experience delays and cancellations, particularly in services related to exploration.

As a result, we expect oil and gas revenue to undergo a low double digit decline in the first half of the year, offset by growth of around 10% in the emergency services business, giving a total growth approaching 5% for the period.

Over the full 2015/16 financial year we expect MCS' emergency services business to grow around 7% and, depending on a number of contract wins, for the oil and gas business to improve in the second half to end 2015/16 at around the same level as the previous financial year.

Overall, we therefore expect MCS to grow between 0 and 5% at constant exchange rates for the 2015/16 financial year.

Our South African business as a whole is progressing well, with the power business having had a particularly strong start to the year. However the weakness in commodity prices in the mining sector is having some impact on our equipment business.

The currency exchange rate at the end of Q1 2015/16 was £/€1.41 and £/ZAR19.25, compared to the average over the previous financial year of £/€1.28 and £/ZAR17.8.

The Group continues to maintain a healthy financial position, and once again expects to achieve an operating cash conversion rate[1] of over 100%, excluding capital expenditure, for the 2015/16 financial year. As previously indicated, capital expenditure will peak this financial year at two times depreciation due to our investment in a new Group-wide back office ERP system which began last year, resulting in, as expected, an operating cash conversion of over 70% after capital expenditure.

The Group remains on track to reduce net debt to 1.9 times EBITDA by the end of the financial year, with the reduction from the previous level of 2.2 times EBITDA expected in the second half of the year due to the phasing of dividend payments.

[1] Operating cash conversion = cash generated by operations after adding back retirement benefit cash flows in excess of service cost as a percentage of operating profit (pre-exceptionals and amortisation of acquired intangibles)

Outlook

The Group is on track to continue the growth trend of previous years, and to deliver its expected growth in both revenue and earnings per share for both the full and half year periods. Demand for our technical expertise and our ability to deliver complex and critical programmes and projects remains strong in both the UK and overseas, and the Board continues to expect significant opportunities for growth from our move into new markets and geographies, combined with the visibility and certainty of future revenues provided by our £20 billion order book.

Ends

Enquiries

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

Dial in number	+44 (0)20 3139 4830
Participant PIN	22543460#

An audio-cast and replay details of the call will be available at www.babcockinternational.com