21 July 2016

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 2016.

Overview

The financial year has started well, with the Group trading in line with our expectations for the year. We continue to experience strong demand for the critical services we provide to our customers in the UK and overseas, and business development remains active in our key markets.

Since the full year results announcement on 25 May 2016, the order book and bid pipeline have remained stable and continue to provide excellent visibility, with around 85% of revenue now in place for 2016/17 and 56% for 2017/18. The tracking pipeline continues to provide significant longer-term opportunities for growth.

Whilst it is too early to predict the effect on the wider economy of last month's UK referendum vote in favour of leaving the European Union, the long term fundamentals of our business are unchanged and the Board remains confident of continued growth this year and beyond. Babcock's operations in Europe will continue to be delivered by locally-based companies.

Operational review

The **Marine and Technology** division continues to make good progress. The naval marine business continues to perform strongly, with growth in both the surface ship and submarine support areas, following the ramp up of the Type 23 frigate life extension programme and the start of life extension of the latest Vanguard class submarine.

Since the start of the financial year, we have been awarded multi-year equipment management contracts by the UK Ministry of Defence with a combined value of around £130 million. The majority of these contracts are for new services, with the remainder representing renewal of existing work. In June the division also secured a c. €50 million contract to build a fourth Offshore Patrol Vessel (OPV) for the Irish Naval Service.

Following the award of a contract from DONG Energy for work on the Hornsea offshore wind farm in May, we won a contract from Siemens to build two Offshore Transformer Modules (OTM®) for the Beatrice wind farm in the Outer Moray Firth. In Australia, the new ANZAC Class Surface Ship Alliance agreement for warship support began on 1 July 2016. In Canada we continue to progress the refit of HMCS Corner Brook, and are working on a number of future opportunities.

In the **Defence and Security** division, the Defence Support Group (DSG) is progressing a number of opportunities currently being tendered, and has been confirmed as the support provider to the Challenger fleet under the life extension programme starting in 2020. At this early stage of the programme the exact level of activity is yet to be finalised. Our Air business has started work on both the UK Military Flying Training System (UKMFTS) Fixed Wing and Rotary Wing contracts.

In May 2016 we also signed a further four-year extension to our UKMFTS Rear Crew Training contract. Operational performance on both Hawk support contracts has been strong. In our Land business the transition to the new Phoenix II contract is progressing smoothly and we have been awarded a two-year extension of our work with British Forces Germany.

In the **Support Services** division, the Magnox and Dounreay decommissioning contracts continue to perform to plan. Consolidation discussions with the Nuclear Decommissioning Authority regarding the significant growth in the Magnox contract are expected to reach formal agreement later this year. As previously indicated, there will be a reduction in revenue of around £100 million in 2016/17 from the decommissioning contracts as a result of the scheduled restructuring programme.

In April we began the roll-out of new vehicles for the London Fire Brigade. As part of the long-term contract to manage and maintain London Fire Brigade's fleet, the first tranche of 52 fire appliances will be delivered by the end of 2017. Our Airports business continues to deliver strong operational performance, increasing the scope of a number of service and project contracts and supporting international expansion.

Our Network Engineering business won two new overhead line refurbishment contracts with a total value of around £30 million and in the Education business Surrey, Devon and Worcestershire schools continue to achieve high Ofsted ratings, with all three counties achieving scores of around 90%.

In the **International** division, MCS' Emergency Services business has renewed air ambulance contracts in Sweden and Italy. The mobilisation of the Ambulance Victoria contract, which began operations in January 2016, has been successful, with five aircraft now operational and performing well. In Spain, the mild weather has resulted in a delayed start to the firefighting season and in the UK we have been awarded a wind farm support contract.

Following a fatal accident to a competitor's Airbus 225 Super Puma helicopter in Norway earlier this year, the aircraft type and its L2 variant have been grounded by aviation regulators whilst the accident investigation continues. MCS has 14 affected aircraft out of an operated fleet of around 400, and has worked to ensure that service to existing customers is maintained, although flying hours are being reduced. At this stage it is impossible to predict the duration of the grounding. In the Oil & Gas business, which comprises around 25% of MCS, customers continue to experience headwinds from the global oil price, however we are progressing a number of new opportunities which are expected to start delivering revenues in the second half of the financial year.

Finally, following the award of an airport ground support services contract by Alitalia earlier this year, we are continuing to progress a number of other international opportunities.

Financial position

The Group continues to maintain a healthy financial position, and once again expects to achieve an operating cash conversion rate of over 100%, excluding capital expenditure, for the 2016/17 financial year. As previously indicated, capital expenditure will reduce to 1.5 times depreciation this year, resulting in an expected operating cash conversion of around 80% after capital expenditure.

At 2015/16 year end exchange rates, net debt to EBITDA was expected to reduce to 1.7 times by year end 2016/17, however at current exchange rates this is more likely to be 1.8 times.

Outlook

The financial year has started well, with trading in line with our expectations of further progress this year and beyond. Whilst it is too early to predict the effects of recent political events, the Board continues to expect good opportunities for growth this year and over the medium term.

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	84091040#

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