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20 September 2017

Babcock International Group PLC (Babcock or the Group) Trading Update

Babcock, the engineering services company, is issuing the following trading update for the period from 1 April 2017.

Overview

The Group is trading in line with our expectations and the outlook for the year is unchanged. Revenue visibility has continued to improve, with 89% of revenue now in place for 2017/18 and around 57% for 2018/19. The order book and bid pipeline of opportunities have remained stable, and continue to provide confidence in our ability to grow revenue as expected over the medium term.

Operational Review

The Group continues to make progress across all four sectors of the business, and has been awarded a number of contracts since the start of the financial year.

In our Marine sector we have begun to work on the c£360 million contract to be the technical authority and support partner for the Royal Navy's new aircraft carriers, HMS Queen Elizabeth and HMS Prince of Wales, and Type 45 destroyers. We also welcomed the publication earlier this month of the UK Government's National Shipbuilding Strategy which builds on the lessons from the successful carrier programme and which creates potential opportunities for Babcock and the wider UK supply chain.

We were pleased to secure a new seven-year contract for the design, production and delivery of weapons handling and launch equipment for the South Korean Jangbogo III submarine, which is the third in a potential multi-boat programme. Our joint venture with Oman Drydock Company to provide a sustainment at reach, repair and maintenance hub for warships at Duqm, a key location in the region, continues to make good progress with the award of contracts by the US Navy's Military Sealift Command to undertake maintenance on two of its fleet. Trading in our LPG business was slow in the early part of the financial year, although we have now been awarded a contract for the design and supply of our market leading cargo handling system for two LPG carriers to be delivered at Jiangnan Shipyard in Shanghai, China.

Our Aviation sector has enjoyed good momentum internationally and we have now begun to mobilise to deliver the new c£500 million emergency medical services (EMS) contract in Norway which sees Babcock leveraging its global experience to operate in the country for the first time. Babcock will operate 11 fixed-wing aircraft providing patients with access to specialist healthcare centres across the country from summer 2019. Other awards in the period include a contract to upgrade helicopters for the Netherlands Police, a number of aerial fire-fighting contracts in Spain and the renewal of two EMS contracts in Australia.

In France we have begun work on our c€500 million FOMEDEC military air training contract for the French Air Force, and completed the first test flight of the fleet of 17 Pilatus PC-21 aircraft. Under the terms of the agreement, we are procuring these dedicated training aircraft and assets for the customer, who expects to purchase the assets over the first four years of the 11 year contract. Following changes made by the customer to the programme schedule, we anticipate formal acceptance of these assets in the next financial year. We therefore anticipate a temporary increase in the Group's working capital of around £70 million in 2017/18 (c£50 million at the half year), which will reverse out in 2018/19 upon the signing of finance leases with the French government.

In our Land sector, we continue to progress our vehicle asset support contracts with customers such as the UK MOD, emergency services and airlines. We continue to deliver on our long term training contracts, and since the start of the year we have renewed three civil training contracts in the UK. Whilst we have experienced a slowdown in our Rail business since the start of the financial year, this has been offset by growth in other business units within the sector.

In our Nuclear sector, the Group has now agreed the terms under which we will take the Magnox estate to the end of the first phase of decommissioning at the beginning of September 2019. We are participating in the tender process for Lot 2 (Engineering & Design) for the Sellafield decommissioning opportunity. Our work on the next tranche of the design for the Wylfa Newydd radioactive waste facilities, for Japan's JGC Corporation, is currently underway. Additionally, we are using our innovative asset responsibility transfer process to work on the plan for the decommissioning of Centrica Storage Limited's Rough 47/8A platforms and infrastructure in the North Sea, under an initial 12 month contract to provide all aspects of governance and compliance prior to the start of decommissioning.

Outlook

The Group continues to maintain a healthy financial position, with growth in line with its expectations for 2017/18. Revenue in the Marine sector is expected to be slightly lower than in the previous financial year, due to the stepdown in the volumes from the Queen Elizabeth Class aircraft carrier programme and the phased introduction of contracts, but this is expected to be offset by growth in the other sectors.

The introduction of accounting standard IFRS15 in 2018/19 is not expected to have a significant impact on earnings, given the nature of the contracts the Group delivers. Detailed work on the standard continues, and the Group will provide a view of the anticipated impact at the full year results in May 2018, prior to its adoption in financial year 2018/19.

Ends

Enquiries

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Conference call

A conference call for analysts and investors will be held at 09:00 GMT this morning, access details below:

Dial in number +44 (0)20 3059 8125

Please state you wish to join the Babcock International Group Trading Update call.

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