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19 September 2018

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 2018. This follows a trading update issued on 19 July 2018.

Trading in line, outlook unchanged

The Group is trading in line with our expectations and our order book and pipeline remain strong with a combined value unchanged at around £32 billion (c.£18 billion order book and c.£14 billion pipeline). Around 87% of revenue is now in place for 2018/19 and around 57% for 2019/20.

Strategic progress

During 2017 we successfully completed the realignment of the Group management and operating structure into four sectors: Marine, Land, Aviation and Cavendish Nuclear. This realignment has intensified our concentration on core higher-margin strategic businesses and is increasing our focus on three core markets: defence, emergency services and nuclear. These markets already account for around three quarters of our revenue and offer sustainable growth opportunities, particularly internationally.

In July we advised that we intended to exit a number of non-strategic, small, low-margin businesses in our Land sector. We have now exited our North American mining and construction support business and have agreed the sale of our Media Services business for around £30 million, with the sale expected to complete in the coming months. This follows the exit from our renewables and civil infrastructure businesses in the UK last year.

This process will continue in the second half of this year, where we expect to exit our powerlines business in South Africa. We will also reshape our oil and gas crew change business to improve performance while ensuring we meet customer needs. We will provide an update on these activities with the announcement of our half year results in November.

Operational progress

Our strategy is delivered across our four sectors. Progress in the period included:

- **Marine** secured a five year Ship Naval Design Partnering (NDP) contract with the Ministry of Defence (MOD) with options for extension. This important long term contract provides leadership for the industry development of new naval platforms and mission systems on behalf of the MOD. In our Energy business, we reinforced the introduction of our ecoSMRT technology by securing a further seven liquid gas equipment systems contracts from international customers
- **Land** has been awarded additional contracts worth around £120 million with the Ministry of Defence to maintain equipment as part of our DSG contract and we have been named the preferred bidder for a rail services contract in Northern Ireland worth over £100 million
- **Aviation's** new HADES contract to provide technical support at RAF bases is now fully operational. Our French FOMEDEC flight training contract is moving into the pre-operational phase, with the manufacture of all 17 PC21 aircraft completed and simulators being commissioned in the new centre in Cognac
- **Nuclear** has been selected as preferred bidder for the Dounreay Materials Test Reactor decommissioning contract and we have begun work on the scheduled outage at EDF's Dungeness station. Activity on new build continues to increase as design programmes accelerate in preparation for construction at Hinkley Point C

We continue to make significant progress in expanding our international businesses, including the progress on FOMEDEC. We have won contracts for fire services in Australia and aerial emergency



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services in Finland and we are opening offices in South Korea and Japan to support ongoing contracts and to develop new business opportunities.

Outlook for the Group

The outlook for the year is unchanged:

- We expect low single digit underlying organic revenue growth at constant currency for the full year with stable margins
- Underlying earnings guidance remains unchanged and as previously indicated, revenue and cash flow performance will be second half weighted as has been the case for a number of years
- We expect to continue to reduce our debt during the year and expect our net debt to EBITDA ratio to be around 1.4 times by the end of the year

Ends

For further information please contact:

Babcock International Group PLC

Simon McGough
Director of Investor Relations
Tel: +44 (0)20 3 235 5592

Kate Hill
Group Director of Communications
Tel: +44 (0)20 7355 5312

FTI Consulting

Andrew Lorenz
Nick Hasell
Tel: +44 (0)20 3737 1340

Conference call

A conference call for analysts and investors will be held at 08:00 (UK time) this morning, hosted by Archie Bethel (Chief Executive) and Franco Martinelli (Group Finance Director).

The dial in number is +44 20 3059 5868. Please state you wish to join the Babcock trading update when prompted.

A replay of this call and transcript will be made available at www.babcockinternational.com/investors.