4 August 2020

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

Babcock, the aerospace and defence company, issues the following update on trading for the first quarter of the financial year ending 31 March 2021 ("the period").

Group trading
Coronavirus (COVID-19) had a significant impact on our financial results in the period but work has continued on key customer programmes and demand for our work in critical areas remains resilient.

Underlying revenue for the first quarter was 11% lower than last year. This reflects the absence of Magnox revenue and weakness in our Land adjacent market short cycle businesses including South Africa. Group revenue from the core business grew slightly, demonstrating the high level of continuing work across the majority of our business.

The necessary safety constraints on close proximity working have had a significant impact on costs and efficiency, directly impacting Group margins and profitability. These include restricted access to customer sites, complex safety measures, reduced numbers of staff on site, changed shift patterns and additional costs. These have led to slower progress on some work streams which has impacted margins on some of our long term contracts in the quarter.

Underlying operating profit for the first quarter was around 40% lower than last year. Around half of this profit reduction was due to lower levels of productivity in the core business while Magnox, South Africa and Land adjacent market businesses account for the other half.

Order intake in the quarter was £0.7 billion and in July we secured around £500 million of new contracts in our Aviation business, helped by the delays in bid decisions beginning to clear.

We made progress on our cash performance, with the receivables outstanding at 31 March 2020 now collected and the Group's working capital position at 30 June 2020 better than at 30 June 2019.

Our substantial long term order book and strong liquidity position underpins our confidence in navigating the short term financial impacts of COVID-19 whilst safeguarding our key capabilities for the future.

Expectations for this financial year
Although we remain confident about the long term, there is uncertainty around the duration and extent of the impact of COVID-19 on productivity, margins and pipeline development. As a result we are not giving detailed financial guidance today and will provide an update at our half year results in November.

We are working closely with our customers to return productivity to prior levels and have made steady progress in bringing our staff safely back into their workplaces. As we adapt to the new working environment, we continue to identify new and more efficient ways of working and this is supporting a gradual improvement in productivity.

As we progress through the year, assuming we are able to make steady progress without further major setbacks from COVID-19, we would expect to see a gradual improvement in Group performance from the 40% reduction in operating profit in the first quarter. As with previous years, performance for the year is expected to be weighted to the second half.

Dividend
After careful consideration the Board has made an exceptional decision not to pay a final dividend for the financial year ended 31 March 2020, given the continued uncertainty around the outturn for this

financial year. This supports our strategy of continuing to reduce net debt and is appropriate given the Group's limited use of the UK Government's Coronavirus Job Retention Scheme.

The Board recognises the importance of dividends to our shareholders and will resume dividend payments at the earliest opportunity.

Balance sheet and liquidity

During the period, we repaid our revolving credit facility and extended its term by a year. This facility of up to £775 million now expires in August 2025. In total, the Group has access to around £2.4 billion of borrowings and facilities of mostly long-term maturities.

Assuming a gradual improvement in Group performance, as well as cash mitigation measures including reducing capex and accelerating aircraft fleet rationalisation, we aim to end the financial year with a net debt to EBITDA ratio[1] of around 2 times, well within our covenant levels of 3.5 times.

Sector performance

Our **Marine** sector revenue grew in the first quarter led by increasing work on the Type 31 Frigate programme and continued strong growth in our technology businesses. Operating profit for the sector was down year on year due to the impact of COVID-19 restrictions on operational performance.

Despite the challenging environment, the sector made good operational progress. The Type 31 Frigate programme has completed its preliminary design review and the majority of tier 1 suppliers are now under contract. UK warship support slowed due to the initial lockdown measures but work is now moving towards more normal levels. We were also awarded a further batch of missile launch tube assemblies for the UK's Dreadnought and the USA's Columbia nuclear submarine programmes.

Revenue in our **Nuclear** sector was lower than last year. Revenue in the naval nuclear business grew in the period led by submarine support activity and nuclear infrastructure investment programmes. Revenue in the civil nuclear business was lower due to COVID-19 restrictions on nuclear site access, lower levels of work in support of nuclear power generation and the absence of revenue from the Magnox decommissioning contract that ended in August 2019.

Sector operating profit was also lower, mainly due to the impact of COVID-19 on revenue in civil nuclear and a lower margin earned in naval nuclear, as a result of restrictions in the number of people allowed on site and the practical application of safe distancing and PPE guidelines.

In July, the Nuclear Decommissioning Authority (NDA), in support of the roll out of its "One NDA" strategy, announced that the Dounreay decommissioning contract, currently being delivered by a joint venture including Babcock, will be taken back into the NDA in March 2021. We are continuing our restructuring programme for the sector announced in June, including integrating our civil and naval nuclear businesses into a single operating structure.

In our **Land** sector, we maintained critical support activity across defence and emergency services throughout the period. However, this sector has been hardest hit by COVID-19 due to its large exposure to adjacent market short cycle businesses. Revenue, margins and profits were lower in the first quarter compared to the same period last year with COVID-19 impacting performance in our civil training, airports, rail, and power businesses. Trading in South Africa was tough with our business there broadly breaking even in the quarter.

In June, we announced the sale of our stake in the Holdfast joint venture for £85 million. We are continuing to deliver the long term RSME military training contract associated with Holdfast.

In our **Aviation** sector, defence revenues were as planned as work continued across our defence programmes. In Europe, Scandinavia and Australia our Aerial Emergency Service bases have remained fully operational. However, sector revenue in the first quarter was lower given the impact of

COVID-19 on flying hours and the ongoing weakness in our oil and gas business. The sector's operating profit was lower than last year due to lower volume related revenue and additional COVID-19 related costs.

The civil aviation market continues to provide good long term growth opportunities. In July, we won around £500 million of new civil aviation contracts across both oil and gas and aerial emergency services, helped by the delays in bid decisions beginning to clear.

We are progressing with our sector restructuring programme and accelerating our fleet rationalisation programme.

Order book and pipeline
The Group's order book at 30 June 2020 was £17.3 billion and our bid pipeline was around £17 billion.

Ruth Cairnie, Chair said:
"We continue to deliver critical programmes for our customers but our financial performance is being impacted by the challenges created by COVID-19. Given the continued uncertainty over the impacts of the pandemic, we are not giving detailed financial guidance for the year at this stage.

"The Board has decided not to pay the final dividend for the 2020 financial year in order to prioritise strengthening our balance sheet and reducing net debt. We recognise the importance of dividends to our shareholders and we will resume dividend payments at the earliest opportunity.

"Our experience of the pandemic so far has demonstrated that the foundations of our business – long term programmes in critical and non-discretionary areas – provide a solid platform for delivery in the medium term.

"David Lockwood will join the Board on 17 August as CEO Designate and replace Archie Bethel as CEO on 14 September. Franco Martinelli has informed the Board of his intention to retire and a search will be initiated for a new Group Finance Director. I thank Archie and Franco for their contributions to Babcock over many years and look forward to welcoming David as we continue to reshape our operations and adapt to the COVID-19 business environment."

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Notes

1. Group net debt (excluding non-recourse JV debt and all lease obligations) divided by underlying Group EBITDA (pre-IFRS 16) and JV dividends received. This is comparable to our covenant measure of net debt to EBITDA