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19 July 2018

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

Prior to today's Annual General Meeting, Babcock, the engineering services company, is issuing the following trading update for the period from 1 April 2018.

Overview and outlook

The Group expects to achieve its underlying earnings guidance for the year whilst continuing to reduce debt, and achieving a year-end net debt to EBITDA ratio of around 1.4 times as previously forecast.

Since the end of 2017/18 the Group has continued to implement its strategy of focusing on the three core markets, Defence, Emergency Services and Nuclear, which make up around three quarters of revenue. In the first quarter we commenced the disposal process for two low margin non-strategic businesses, and more small disposals and exits from non-core businesses, primarily in the Land sector, are expected through the year.

Revenue expectations for the Aviation sector, where we expect strong growth, and the Nuclear sector remain unchanged. We are now expecting defence revenues to be temporarily impacted by the restructuring of the Defence Equipment & Support (DE&S) organisation which has created the new Submarine Delivery Agency (SDA). Following this restructuring, a review of programme spend timings is contributing to slightly slower than expected UK activity levels in our Marine and Land sectors. As a result of both the positive portfolio actions and the delays in defence activity, the Group now expects low single digit underlying revenue growth for the full year.

Around 83% of expected revenue is now in place for 2018/19, and around 55% for 2019/20. The combined order book and pipeline has increased to c £32 billion; the order book of signed contracts remaining stable at c £18 billion and the pipeline of bids in progress increasing to c £14 billion, with the majority of the increase coming from new Marine opportunities.

Operational Review

Marine sector: The UK Naval business is expected to experience a temporary slowing of revenue relating to infrastructure spend, submarine disposal and the Dreadnought project as the newly-launched SDA reviews timings of their spend programme. This, combined with the expected stepdown of revenue on the Queen Elizabeth Carrier project and the impact of our exit from the offshore renewables sector, both of which are first half weighted, is expected to result in a year-on-year reduction in Marine revenues in the first half of 2018/19. However the full year impact will be offset by new order wins in the International Naval and Technology businesses, including three energy contracts which had been delayed from the end of 2017/18.

Land sector: Defence procurement expenditure in the first quarter continued at the same reduced level as at the end of 2017/18. However, order levels are now increasing. In South Africa, recent management changes at Eskom have resulted in power station outage delays which are impacting business in the first half of the financial year. Continuing our focus on core markets which deliver appropriate returns, we are currently disposing of activities in the South African powerlines and our North American mining and construction support businesses.

Aviation sector: The Defence business began its HADES contract to provide technical support at 17 RAF air bases in July following a phased mobilisation over the first quarter. In France, the FOMEDEC military air training contract is on track, and is moving from mobilisation to pre-operations phase with eight of the 17 aircraft now having been accepted by the customer. In the Emergency Services business, mobilisations for the air ambulance contracts in Norway and Gothenburg, Sweden are proceeding on schedule, and we have been awarded a five year air ambulance contract in Finland. Additionally we have renewed a contract with Generalitat Valencia, Spain, and are awaiting formal confirmation of the renewal of our Spanish SASEMAR search and rescue contract.

Nuclear sector: Cavendish Nuclear continues to progress delivery of the Magnox decommissioning contract, with preparation underway to hand over to the UK Nuclear Decommissioning Authority (NDA) at the end of August 2019. The NDA has confirmed that it will then seek to use expertise from the private sector through multiple smaller contracts, as it does with Sellafield where we have won around £40 million of design and project work in the first quarter and are currently bidding for around £500 million of further work. We are opening an office in Japan to support decommissioning work at both Tokai and Fukushima. Our Projects and New Build business continues to grow, and we will shortly enter into an industry alliance which is expected to provide additional opportunities at Hinkley Point C.

Financial position

The Group continues to maintain a healthy financial position. Cash flow in the first quarter of the financial year is similar to the same period the previous year, and as previously indicated we expect revenue, profit and cash flow to be second half weighted. We expect to reduce debt during 2018/19 to achieve a net debt to EBITDA ratio of around 1.4 times by the end of the year.

Ends

Enquiries

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Conference call

A conference call for analysts and investors will be held at 08:00 GMT this morning, access details below:

Dial in number +44 20 3059 5868

Please state you wish to join the Babcock AGM Trading Update when prompted.

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