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6 February 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 to 31 January 2018.

Financial Highlights

The Group has continued to make steady progress in the second half of the year and is on track to achieve another record year in terms of revenue and underlying earnings.

- Full year underlying earnings are expected to be in line with guidance.
- Cash conversion for the full year is expected to be in line with guidance.
- Net debt to EBITDA is forecast to reduce to 1.7 times (inclusive of the temporary FOMEDEC working capital outflows highlighted previously).
- Group margin is expected to be higher than previously forecast, due to a combination of more favourable margin mix and a continued management focus on efficiency improvements.
- Revenue for the year is now forecast to be slightly lower than previously expected, at between £5.3 billion and £5.4 billion for the year, representing growth of between 2% and 3%, with the reduction due to:
 - Continuing tough trading conditions and short cycle order placement delay in the Offshore and Oil & Gas sector.
 - A slowdown in the volume of defence sector commodity and spares procurement revenue, passing through our Equipment Management Operating Centres.
 - Slower mobilisation on the MSSP equipment and engineering management contract for MoD although operational since 1 December.
- Strong bidding activity continued into the second half of the year and the short-term pipeline of bids in process has increased to around £12.5 billion, maintaining the combined order book and near term opportunity pipeline at £31 billion, supporting our continued confidence of future growth.
- Following a detailed review of all material contracts, on 11 December 2017 Babcock confirmed in an RNS that, in line with its conservative contract accounting approach, the adoption of International Financial Reporting Standard (IFRS) 15 will not require a change in future contract revenue or profit recognition.

Operational Highlights

Across the Group we continue to deliver complex engineering services in support of our customers' critical operations. Military assets and infrastructure, including nuclear submarines, complex warships, land armoured vehicles, aircraft training infrastructure, naval, army and air force bases and naval dockyards continue to operate at high tempo driving steady demand for our services. Across Europe and in Australia we continue to provide essential aerial emergency services including air ambulances, firefighting and search and rescue, flying record numbers of missions, and we continue to provide critical engineering support services across the many civil nuclear facilities located around the UK.



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Operational highlights across the Group's four reporting sectors for the four months ending 31 January 2018 included:

Marine

- A further five year agreement to provide sustainment support services for the Royal Australian Navy's eight ANZAC Class frigates as part of the long-term Warship Asset Management Agreement.
- The Maritime System Support Partner (MSSP) contract went live on 1 December 2017. This contract requires us to provide engineering and equipment management support to the Queen Elizabeth Class aircraft carriers and the Type 45 Class air warfare destroyers and will be a major workstream for us as it builds up over the next few years.

Land

- A new AU\$33 million contract to support the Australian Defence Force's fleet of Ground Support Equipment, which is due to begin in June 2018.
- Our South African Equipment business has maintained the high level of activity experienced in the first half. This includes one £15 million order scheduled for delivery in April 2018.

Aviation

- The sector retained its flagship aerial firefighting contract for the Italian Government at improved returns following a competitive tender. The contract, worth up to £160 million for the first four years, will see the continued delivery of services across the country and includes options for a further four years, which we expect to secure.
- A new contract to provide Air Ambulance services to the City of Gothenburg, Sweden.
- A four-year renewal of the aerial search and rescue contract in Galicia, Spain, with the introduction of a number of new innovative technology solutions

Cavendish Nuclear

- A 10-year contract worth up to £95 million over the first three years to supply Sellafield Ltd with specialist handling and containment systems to process nuclear material.
- New project work was secured from EDF and we successfully provided scheduled outage support at one of its AGR sites.
- In nuclear new build, we continue to progress design programmes at Hinkley Point C and see a range of opportunities for engineering and design support at Horizon Nuclear Power's Wylfa Newydd project. We are currently bidding on a number of significant opportunities, including the Programme and Project Partners contract for Sellafield decommissioning.

Outlook

The Board confirms its view that underlying earnings for the financial year will be in line with its expectations. Cash conversion for the full year is also expected to be in line with guidance, as is the reduction of net debt to EBITDA to 1.7 times, inclusive of the FOMEDEC working capital outflow which will reverse in the next financial year. Supported by a strong order book and bid pipeline, the Board remains confident of making good progress in the future, with an increasing proportion of international business.



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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 (0) 20 3936 2999
Participant code	100907

A live audio webcast and replay the call will be available at www.babcockinternational.com/investors