10 February 2015

Babcock International Group PLC
Interim Management Statement

Babcock International Group PLC (Babcock or the Group), the UK's leading engineering support services company, issues the following Interim Management Statement for the period from 1 October 2014.

Overview
Following a strong performance in the first half of the 2014/15 financial year from all the Babcock businesses and the Avincis acquisition, the Group has continued to trade well during the period. Overall, the Group continues to experience strong demand for its services through existing contracts and bidding and business development activities remain buoyant. The Board remains confident that the Group's results for this financial year will be in line with its expectations as set out at the time of our half year results announcement on 20 November 2014**.** We entered the fourth quarter with an order book of c £20 billion and a bid pipeline of c £13 billion, which combined is a new high for the Group. The Group's order book now provides visibility of over 70% of anticipated revenue for the 2015/16 financial year.

Financial position
The Group has maintained a healthy financial position. At the same time as delivering growth, all businesses have shown good cash generation and once again at the year-end we expect to achieve an operating cash conversion rate[1], excluding capital expenditure, of over 100% and of c 80% including capital expenditure.

Since the end of the first half, the Group has converted £25 million of capital expenditure into operating leases as expected. An additional c £10 million has been spent to further strengthen the IT systems for the enlarged Group as well as to support future growth.

During the second half, the Group expects to spend c £200 million on acquisitions, net of disposals, including Defence Support Group (DSG) (£140 million) and McNeillie (£55 million), a specialist vehicle converter working with the emergency services, military and security focused organisations in the UK and overseas. These acquisitions will build on Babcock's existing capabilities and support the Group's growth ambitions.

As a result of these transactions, the Group expects to achieve a net debt:ebitda ratio of between 2.2 and 2.3 times by the year end.

Divisional review
The **Marine and Technology** division is performing well across all business streams in the UK and overseas, with financial results remaining in line with our expectations.

In-service and deep maintenance activity levels for submarine and warship support and contract wins in the Technology business streams continue to drive growth across the division.

[1] Operating cash conversion = cash generated by operations after adding back retirement benefit cash flows in excess of service cost as a percentage of operating profit (pre-exceptionals and amortisation of acquired intangibles

In the **Defence and Security** division, training and equipment support activities for the Army, the Royal Navy and Royal Air Force are all performing in line with our expectations.

The Infrastructure business completed the Regional Prime contracts at the end of January, as planned, and, as already indicated, this will reduce the division's revenue by approximately £50 million for the 2014/15 financial year compared with 2013/14.

The division has entered into contracts with the MoD for the acquisition of DSG, with the associated service provision contract along with output based services expected to be worth c £2 billion over ten years. Excellent opportunities for further growth are already being identified.

Within the **Support Services** division, contracts across all business units are performing well and in line with our expectations.

Our subsidiary Cavendish Nuclear continues to make strong progress. The decommissioning contract for the Magnox and Research sites has started well and at the beginning of the year, Cavendish Nuclear signed agreements with EDF Energy to continue to provide fuel route and other services to the EDF fleet of nuclear power stations for 16 years.

For the **International** division, the South African business has continued to make steady progress in local currency. Although weakness in commodity prices has had some impact on Volvo sales, this has been offset by good trading in the other businesses.

The integration of Avincis into Babcock continues to progress smoothly and since the half year results announcement we have renamed Avincis, Babcock Mission Critical Services (MCS) with no changes to the business's operating brands. Business development leads for France, Spain and Italy have been appointed and they are currently undertaking a detailed induction programme into the Babcock businesses. This will ensure they fully understand the range of critical services we are able to deliver for our customers before they start identifying new markets and opportunities for Babcock business units in Europe.

Following a strong performance in the first half, MCS has continued to perform in line with our expectations for this financial year in local currencies. The Emergency Services businesses across Europe have been trading well with additional volumes offsetting some reductions in Oil and Gas activities.

Growth in the Emergency Services businesses (c 70% of MCS) has been as expected at the time of the acquisition supported by recent contract wins, despite the unsuccessful emergency services bid in New South Wales, Australia.

Since the half year results announcement in November, the fall in the oil price has caused some uncertainty for the Oil and Gas businesses (c 30% of MCS), however, the vast majority of this business continues to benefit from long-term contracts in the North Sea and Australia. We estimate around 3% of the MCS business is addressing discretionary spend for our oil and gas customers and therefore at risk from the current oil price. We are also starting to experience some delays to the award of exploration contracts. As a result, the headwinds in this part of the business could impact MCS's operating profit growth for 2015/16 by around some £6 million. There has been no change to bidding activities in any of MCS's other markets.

Foreign exchange

Around 65% of the MCS business trades in Euros and as set out in the half year results presentation a 1% movement in the Euro exchange rate will have a translation effect on revenue of £3.3 million and on operating profit of £0.7 million. Within the prospectus for the acquisition the exchange rate used was £/€1.17. At December 2014 the average exchange rate for the period from 1 April was £/€1.26. This represents a change of 7.7%. On 6 February 2015 the Euro closed at £/€1.34.

The South African business represents approximately 7% of total Group revenue. A 1% movement in the South African Rand would impact revenue by £2.8 million and operating profit by £0.3 million. The average Rand exchange rate used to translate the 2013/14 results was £/ZAR15.9 and the average exchange rate from April to December 2014 was £/ZAR17.8. This represents a change of 11.9%.

The Group maintained approximately £550 million of debt to hedge the European business and as a result any deterioration in the Euro will not affect cashflow.

Order book and bid pipeline

The order book currently stands at c £20 billion following signature of the DSG contract on 17 December 2014. The order book now provides visibility of over 70% of anticipated revenue for the 2015/16 financial year.

The bid pipeline has remained stable at around £13 billion. Bids for the Defence Fire and Rescue Project, the rebids for Project Phoenix, the MoD's white vehicle fleet contract, the Metropolitan Police vehicle contract as well as a number of scope increase packages within the Support Services division have replaced the DSG win and other movements. We await the MoD's decision on the award of the Logistic Commodities and Services Transformation (LCST) programme which is expected before the end of the financial year. The tracking pipeline continues to provide further significant longer-term opportunities for the Group.

Outlook

Our markets, in both the UK and overseas, remain positive as customers seek financial and operational efficiencies and improvements. Against this backdrop, our business model, the scale of our operations, the depth and breadth of our experience and our successful track record are creating medium and long-term opportunities for our businesses, in existing as well as new markets and geographies.

The integration of MCS's operations is progressing smoothly and the business is operating in line with our expectations. Plans are progressing well to ensure the business maximises the opportunities created by being part of the larger Babcock Group.

The Group's strong order book provides excellent visibility and we continue to see significant prospects for growth as we progress bids in the pipeline and opportunities being tracked that have yet to come to market.

Despite the impact of recent foreign exchange movements highlighted above, the Board remains confident the Group will continue to make strong progress during this year and that the results for the 2014/15 financial year will be in line with its expectations.

Ends

Enquiries

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Conference call

A conference call for analysts and investors will be held at 8.00 am this morning, access details below

Dial in number	020 3139 4830
Toll-free number	0808 2370030
Participant PIN	27648208#

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

Forthcoming events

Analyst and investor seminar – Babcock Mission Critical Services

On the afternoon of Monday 30 March 2015, Babcock will be hosting a seminar to discuss the MCS business. If you would like to register for the event please call FTI on 020 3727 1340.

Full year results

Babcock will announce its full year results for the year ended 31 March 2015 on Monday 18 May 2015.