2019 half year results presentation

14 August 2019

Balfour Beatty

Leo Quinn

Group Chief Executive

Build to Last highlights

Operational excellence
PFO from earnings-based businesses up 29%

Financial strength
Average net cash at £290m; Investments portfolio at £1.2bn

Managed growth
Order book up 5% at £13.2bn

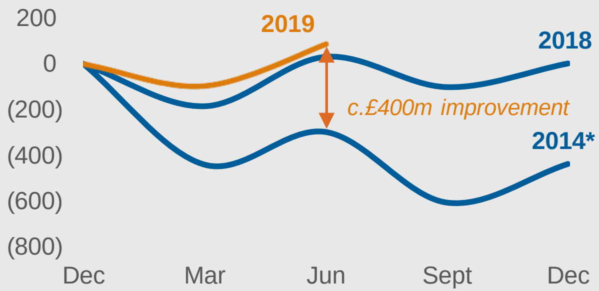
Long term value creation
Interim dividend increased 31%; substantially de-risked portfolio

Increased profitability backed by strong cash performance

Delivering Build to Last

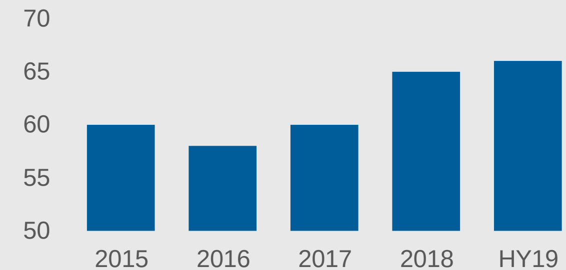
Lean

Cumulative annual cash flow^ (£m)



Expert

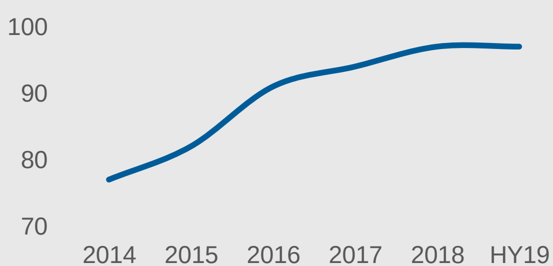
Employee engagement index (%)



^ includes other disposals
** adjusting for sale of Parsons Brinckerhoff. Includes all other disposals*

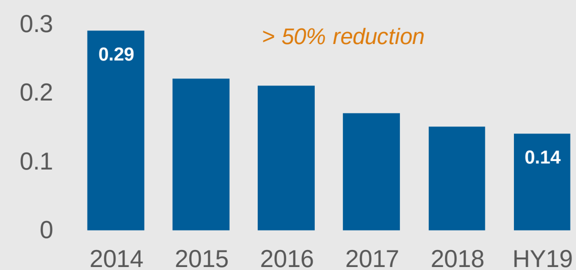
Trusted

Customer satisfaction average (%)



Safe

Lost time injury rate~

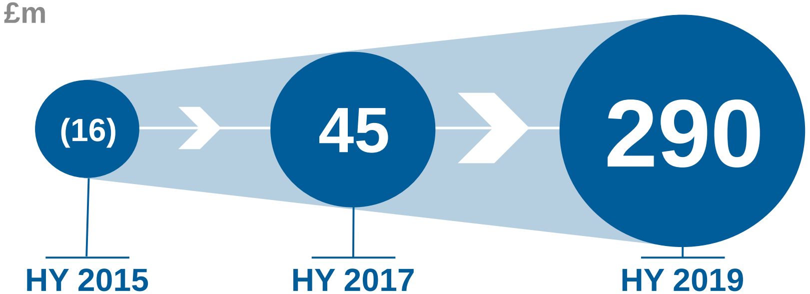


~ excluding international joint ventures

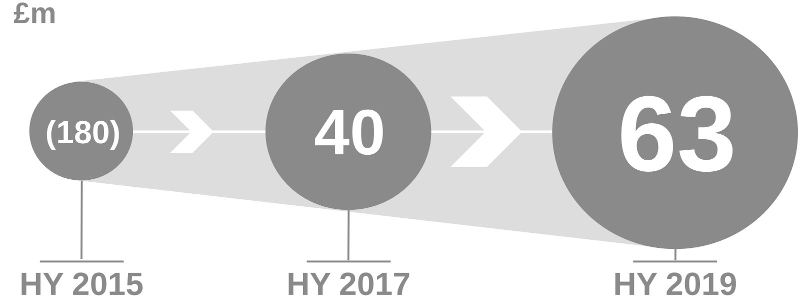
Delivering on all Build to Last goals

Wider benefits of Build to Last

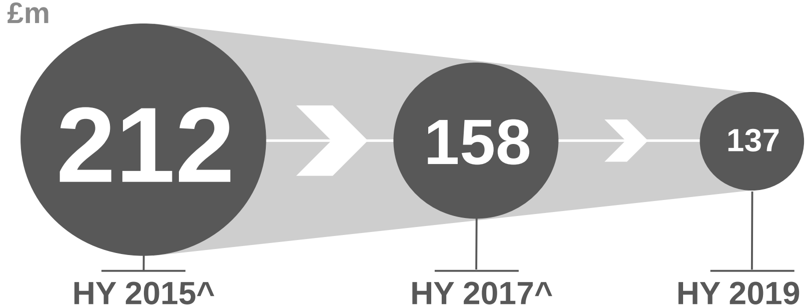
Average net cash/(debt)
£m



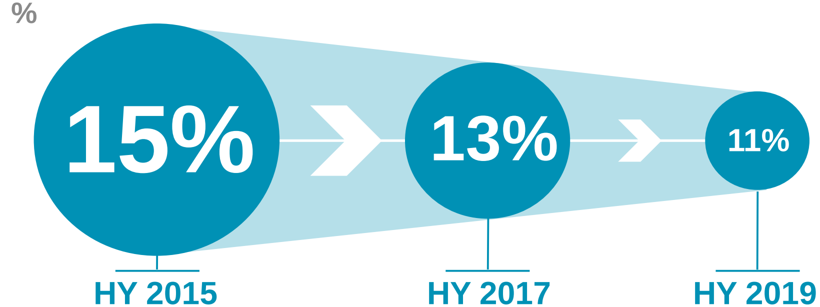
Earnings-based businesses profit/(loss) from operations*
£m



Other net operating expenses*
£m



UK voluntary attrition: moving annual average
%



** from continuing operations, before non-underlying items*
^ 2015 and 2017 other net operating expenses are calculated on a Constant Exchange Rate basis

Well positioned for further profitable managed growth

Phil Harrison

Chief Financial Officer

Headline numbers

£m (unless otherwise stated)	HY 2019	HY 2018	Change
Revenue*	**3,881**	3,836	1%
Profit from operations*	**72**	66	9%
Pre-tax profit*	**64**	56	14%
Profit for the period*	**54**	52	4%
Basic earnings per share*	**7.6p**	7.5p	1%
Dividend per share	**2.1p**	1.6p	31%

	HY 2019	FY 2018	Change
Order book*	**£13.2bn**	£12.6bn	5%
Directors' valuation of Investments portfolio	**£1.16bn**	£1.15bn	1%
Period end net cash≠	**425**	337	26%
Average net cash≠	**290**	194	49%

** before non-underlying items*
≠ excluding infrastructure concessions (non-recourse) net borrowings

Strong results demonstrate continued value being created

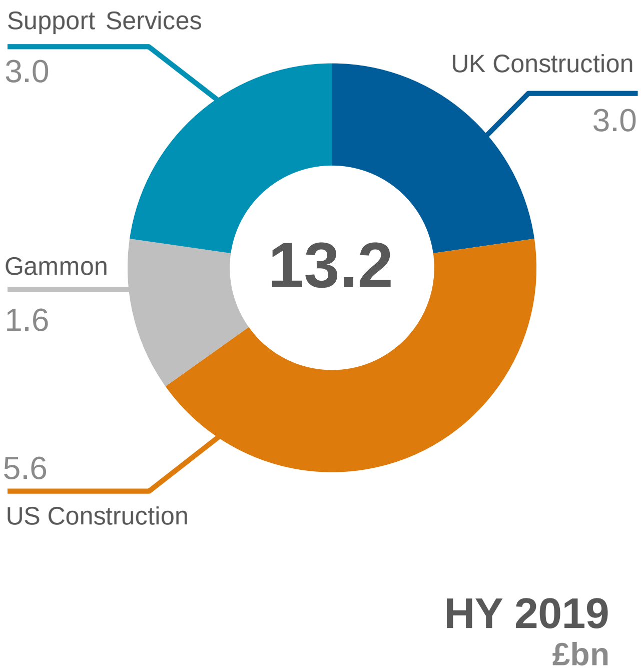
Underlying profit from operations

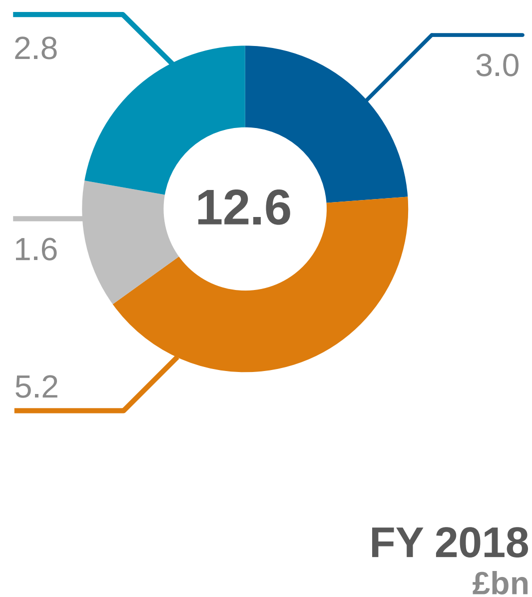
£m	HY 2019*	HY 2018*	Change
UK Construction	17	5	240%
US Construction	19	17	12%
Gammon	9	10	(10)%
Construction Services	**45**	32	41%
Support Services	**18**	17	6%
Earnings-based businesses	**63**	49	29%
Pre-disposals operating profit	9	11	(18)%
Profit on disposals	16	22	(27)%
Infrastructure Investments	**25**	33	(24)%
Corporate activities	**(16)**	(16)	–
Total	**72**	66	9%

** before non-underlying items*

Continuing increase in PFO from earnings-based businesses

Order book





- 5% increase driven by US Construction bookings
- UK Construction stable; Support Services increased 7%
- Maintained Group's disciplined bidding strategy
- £1.7bn (Balfour Beatty share) HS2 Lots N1 & N2 and Old Oak Common not yet included
- Further material Awarded But Not Contracted (ABNC)
  - US: IH-635; Broward County Convention Center
  - UK: Midland Met Hospital; Lewisham Gateway

Managed growth whilst maintaining Build to Last disciplines

Construction Services

	HY 2019*			HY 2018*		
£m	Revenue	PFO	PFO%	Revenue	PFO	PFO%
UK	1,014	17	1.7%	947	5	0.5%
US	1,727	19	1.1%	1,577	17	1.1%
Gammon	380	9	2.4%	451	10	2.2%
Total	**3,121**	**45**		2,975	32	

** before non-underlying items*

- UK: 7% increase in revenue, first under Build to Last. Expect full year PFO to be in 2-3% industry standard margin range
- US: 10% (CER 3%) increase in revenue with 12% increase in PFO; order book increased 8% (CER 8%) since year end
- Gammon: 16% (CER 21%) reduction in revenue; margin increased to 2.4%

Construction Services PFO increased 41%

Support Services

£m	**HY 2019**	HY 2018
Revenue		
Utilities	276	308
Transportation	227	235
Total	**503**	543
Profit from operations*	**18**	17
PFO margin*	3.6%	3.1%

** before non-underlying items*

- Power: Hinkley and other contract successes with National Grid
- Gas and Water: selective focus on AMP7 (2020–2025) contracts
- Highways: 30 year M25 Connect Plus contract; good local authorities opportunities
- Rail: Central Track Alliance (£1.2bn over 10 years); four year London Underground contract

Core business supported by long term positions

Infrastructure Investments

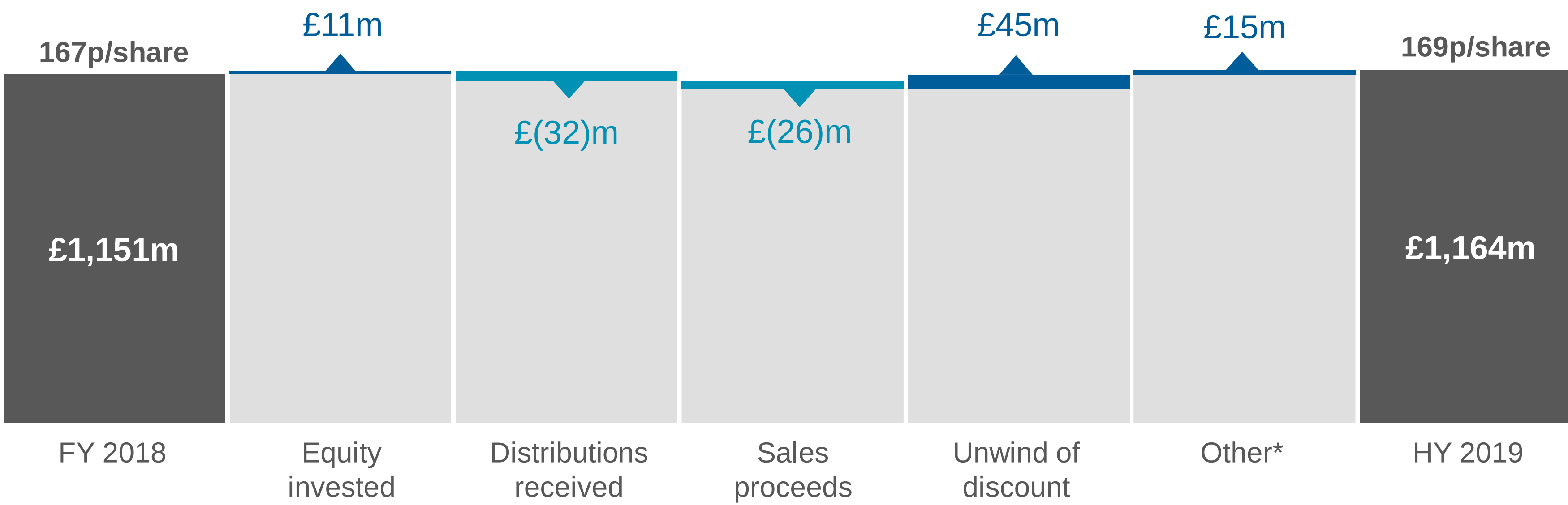
£m	HY 2019	HY 2018
Pre-disposals operating profit*	9	11
Profit on disposals*	16	22
Investments profit*	**25**	33
Subordinated debt interest receivable	13	13
Infrastructure concessions' net interest	(3)	(3)
Investments pre-tax profit*	**35**	43

** before non-underlying items*

- Four first half disposals generated £16m profit
- All disposals at, or above, Directors' valuation
- Group will continue to dispose of assets in H2 2019 in line with its strategy

Continuing strategy to optimise value

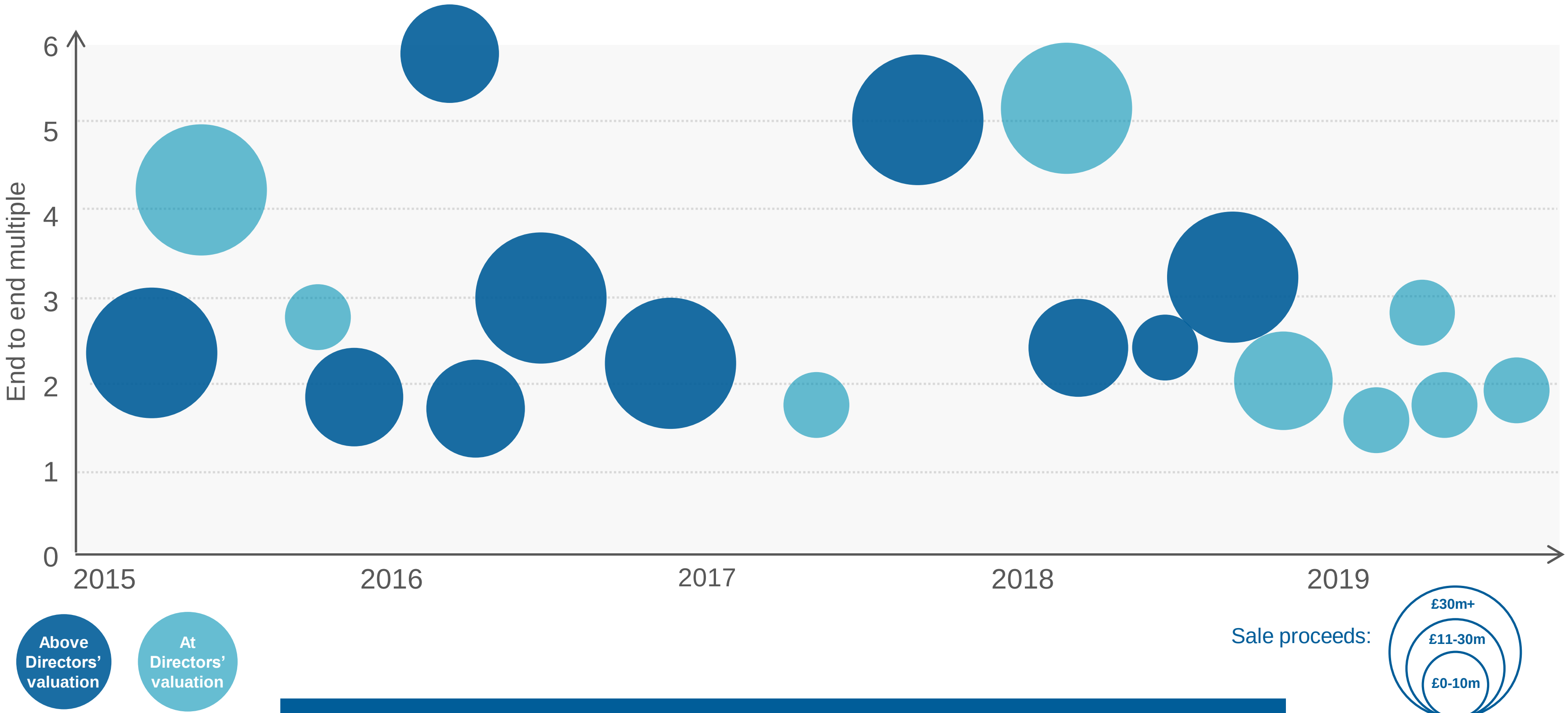
Directors' valuation of Investments portfolio



** other includes movements in operational performance £12m, foreign exchange £2m and £1m new project wins*

Directors' valuation remains stable at £1.2bn

Realising value from the Investments portfolio

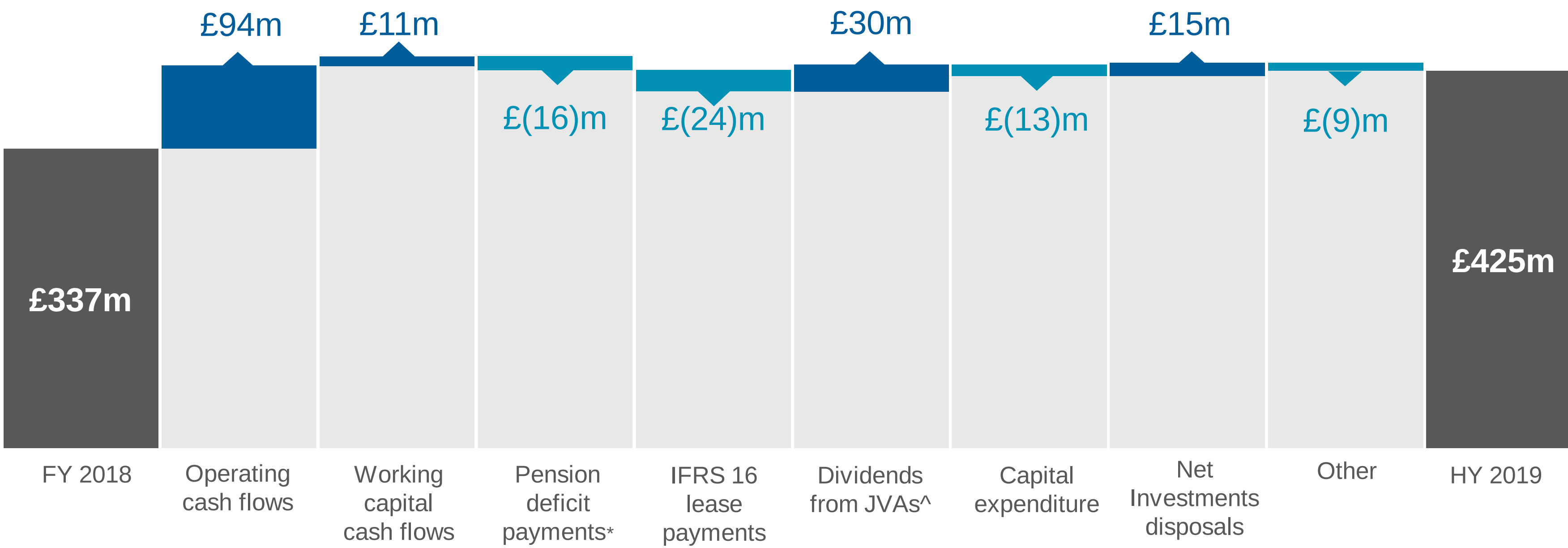


Track record of disposals demonstrate portfolio valuation

Balfour Beatty

Cash flow waterfall

Average net cash: half year at £290m; full year guidance increased to £280m - £300m



** includes £1m of regular funding*
^ excludes £10m dividends received in relation to asset disposals within JVAs

Strong cash generation from operating cash flows

Leo Quinn

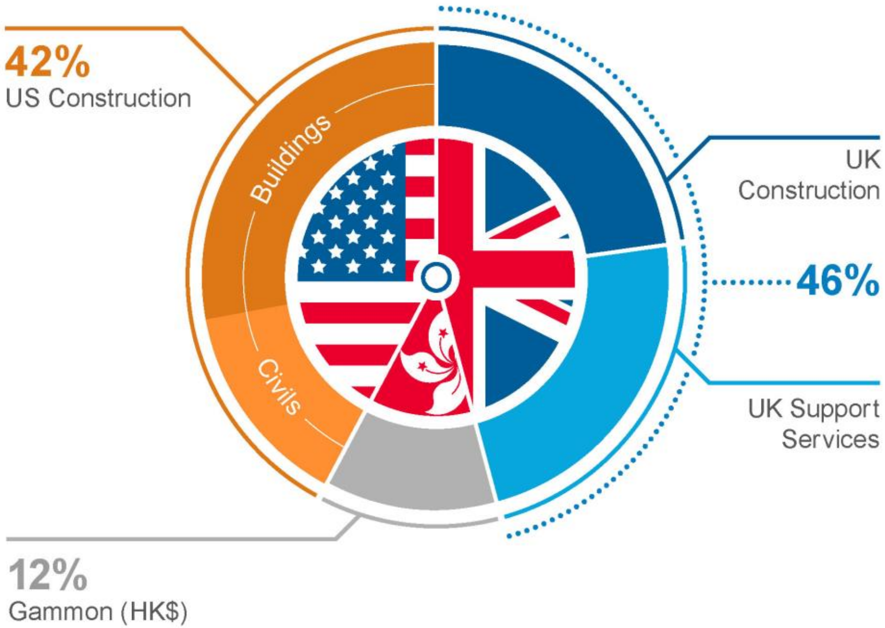
Group Chief Executive

Platform for profitable managed growth

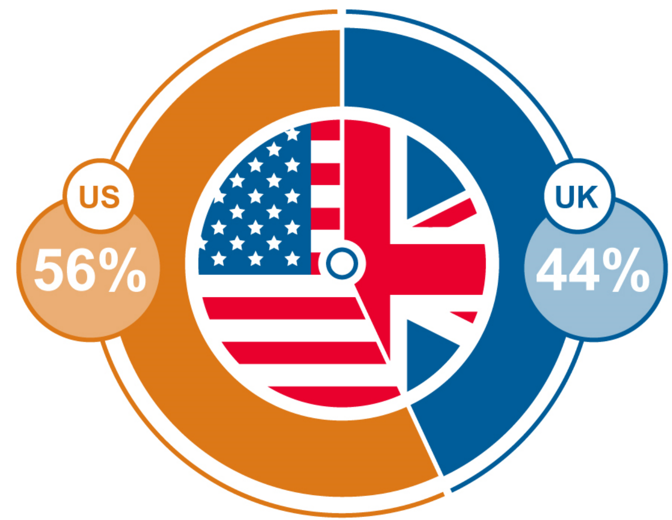
Creating long term value

Geographically and operationally diversified Group

£13.2bn Order book at HY 2019



£1.2bn* Investments portfolio at HY 2019

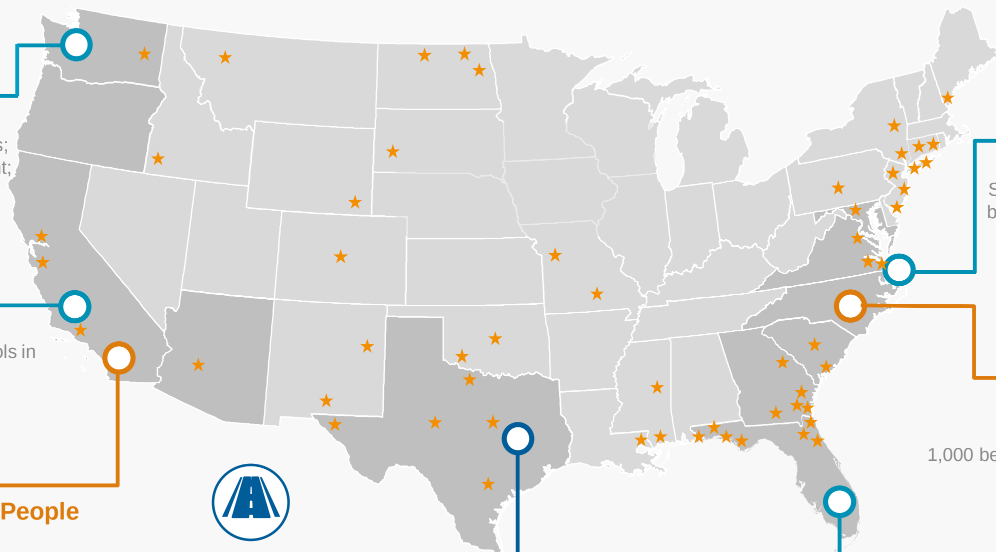


* *Directors' valuation*

Over half of business outside the UK

US operations:

Construction c.£3.5bn^; Investments £653m~



Hi-tech offices
Corporate head offices; campus redevelopment; and data centres

Schools
Market leader in schools in Southern California

LAX Automated People Mover
Design, build, finance, operate and maintain over the next 30 years

IH-635 Freeway
Widening and full reconstruction of 11 miles of freeway

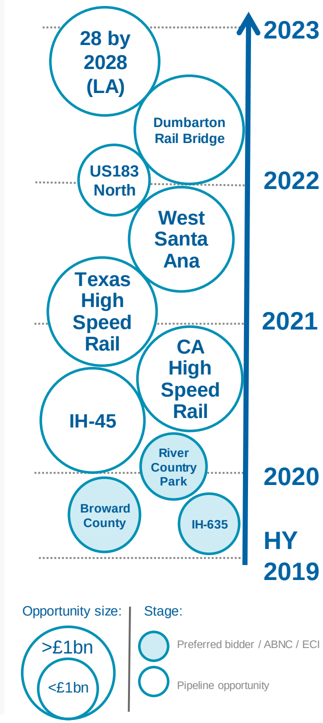
The Wharf
Selected for phase 2; office buildings and public spaces

University of North Carolina
1,000 bed student accommodation located on campus

Hospitality
Rides for theme parks; hotel accommodation; and convention centres

★ *US Military Housing bases*
○ *Buildings project (80% of US Construction revenue)*
○ *Civils project (20% of US Construction revenue)*
○ *Combined Investments and Construction project*

Strong infrastructure pipeline



Regional and operational diversification; strong pipeline

^ Annual revenue
~ Directors' valuation at HY 2019

US Military Housing

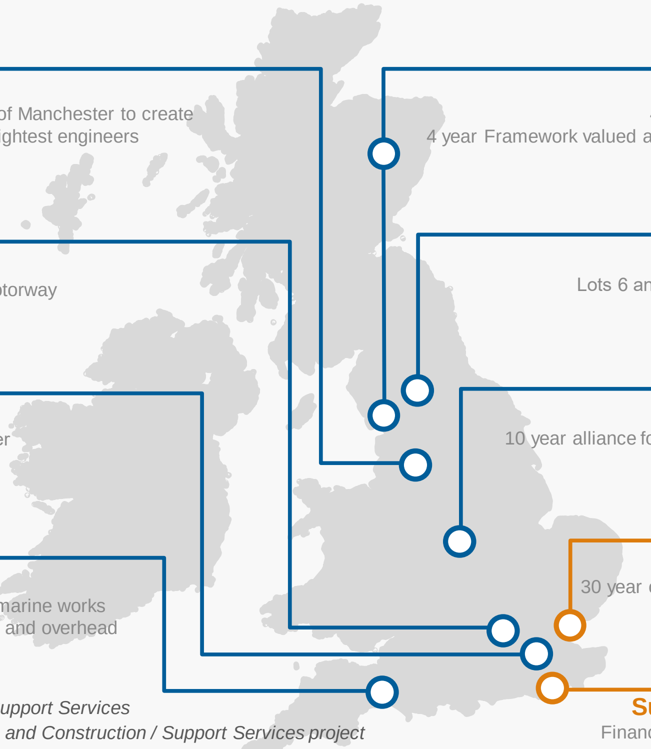
- 55 military bases with 43,000 residential units; 50 year concessions
- 1,200 employees committed to providing the highest standards of service
- Reported allegations on 2 Air Force bases
  - Tinker: allegations from 2 former employees
  - Mountain Home: processing of 1 work order
- The matter is being taken very seriously; external counsel appointed, investigation underway
- Group is not aware of any information in relation to the allegations with respect to military housing that causes it to change either the Directors' valuation or other financial forecasts

Fort Bliss US Army base, Texas

Working closely with the military services to provide high quality service for families

UK operations:

Construction c.£2bn^; Support Services c.£1bn^; Investments £511m~



MECD
Facility for the University of Manchester to create an environment for the brightest engineers

M4
Development of smart motorway

Thames Tideway
London's new super sewer

Hinkley Point C
Electrical, tunnelling and marine works package, cabling contract and overhead line contract

Scape Civil Engineering Frameworks
4 year Framework valued at £500 million across Scotland
4 year Framework valued at £1.6 billion across England, Wales and Northern Ireland

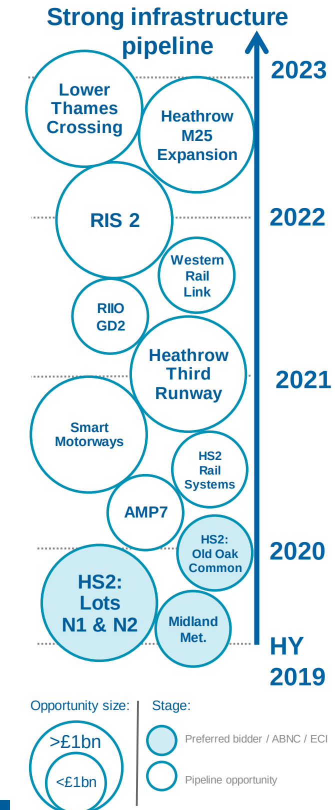
Regional Investment Programme
Lots 6 and 8 of Highways England's Regional Delivery Partnership

Central Track Alliance
10 year alliance for the development, design and delivery of track renewals

M25 Connect Plus
30 year operation and maintenance of the M25 motorway network

Sussex University student accommodation
Finance, construction and maintenance of new accommodation

Construction and / or Support Services
Combined Investments and Construction / Support Services project

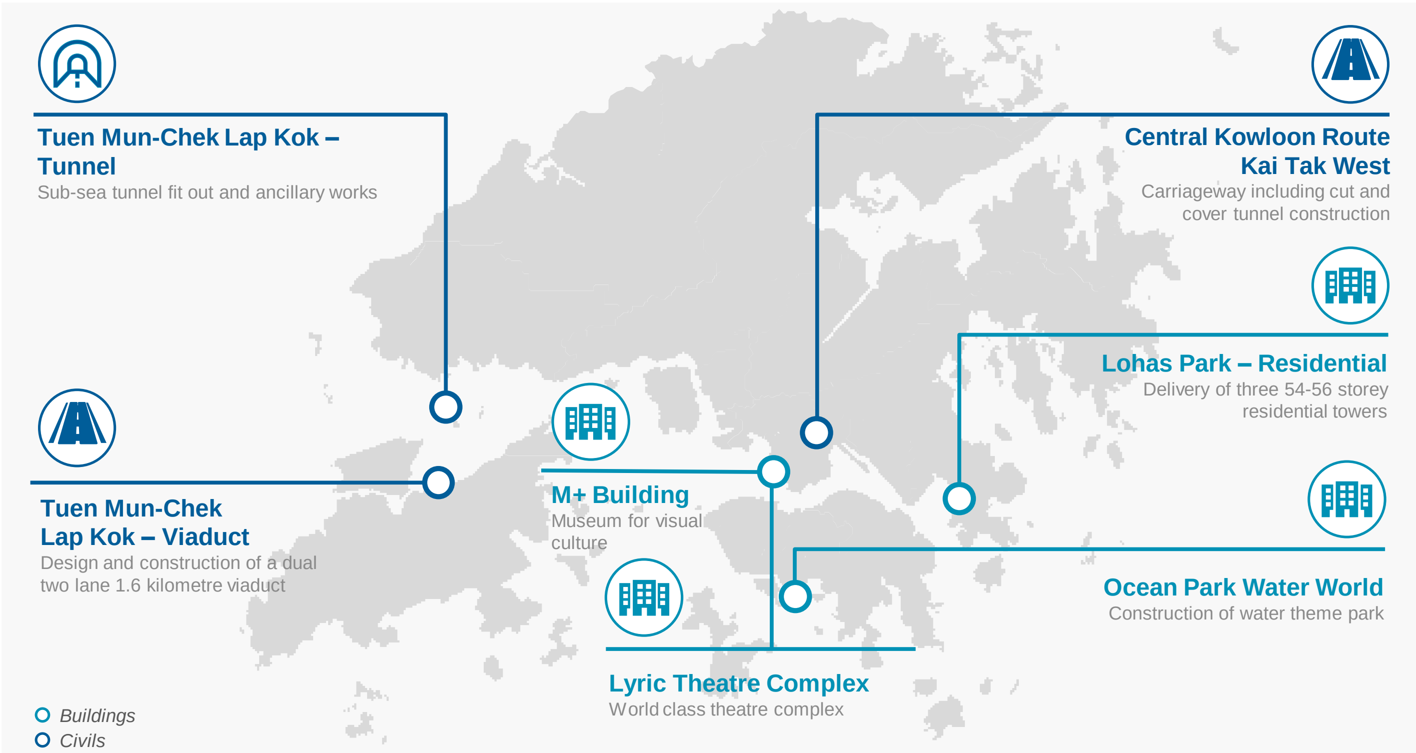


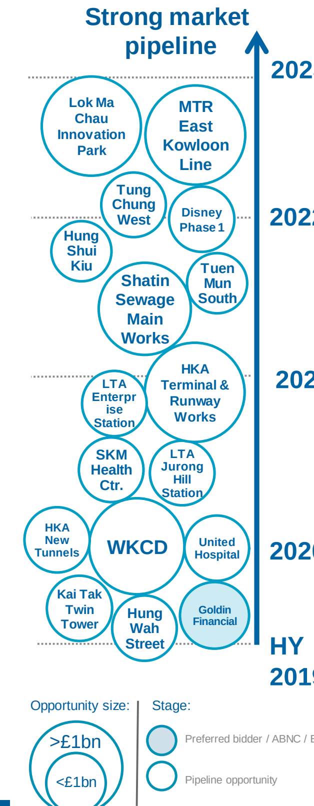
Well positioned across strong infrastructure market

^ Annual revenue
~ Directors' valuation at HY 2019

Hong Kong operations:

Gammon revenue c.£1bn^; 50:50 joint venture with Jardine Matheson





^ Annual revenue (Balfour Beatty share)

Well positioned to capitalise on pipeline of opportunities

Profitable managed growth and cash generation

Strong infrastructure markets	Increasing order book and revenue
Embedded culture of active risk management	Improving margins
Investment made to create platform for scalable growth	Improving productivity and lower cost base
Strong balance sheet	Well positioned for future returns

Driving value creation

Appendix

Forward-looking statements

This presentation may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by Balfour Beatty in good faith based on the information available to it at the date of the 2019 half year results announcement and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies and failure in Balfour Beatty's health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts, written or verbal, will come to pass or that any forecast results will be achieved, and projections are not guarantees of future performance. Forward-looking statements speak only as at the date of the 2019 half year results announcement and Balfour Beatty and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this presentation. No statement in the presentation is intended to be, or intended to be construed as, a profit forecast or profit estimate or to be interpreted to mean that Balfour Beatty plc's earnings per share for the current or future financial years will necessarily match or exceed the historical earnings per share for Balfour Beatty plc. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

Addressing the skills gap

The Telegraph

We must make Britain fit for future generations

Leo Quinn, Balfour Beatty Group Chief Executive and Founder of The 5% Club

13 June 2019

Who is thinking about how to make Britain fit for future generations? A place to live, work and compete globally? Whatever other nations or blocs we trade with, we are going to need something to trade.

So who is thinking about making this country an attractive place to invest? Where is the urgency over building the skilled workforce to power our economy? To creating the quality jobs needed to lift the young, disadvantaged and the out-of-work out of poverty and social immobility, and into prosperity and security?

Helping Britain work: Skills + Infrastructure

The case for skills and infrastructure

- Improving social mobility through skills training is important not only from a social cohesion standpoint but also to address the UK's aging engineering base and stubborn productivity gap. Within this, apprenticeships are central given how increasingly structured and accessible they are, offering opportunities for people from all backgrounds.
- Infrastructure is a key employer of apprentices. In the transport sector alone, around 2,000 new apprentices have been taken on each year since 2016, with this annual figure set to rise as high as 5,000-8,000 by 2022[1].
- Investment in infrastructure is widely acknowledged as being one of the best ways of stimulating the economy and driving employment and other social value benefits, from training and employing the long-term unemployed and previous offenders, to boosting local small, medium and micro businesses, reducing air pollution and improving green spaces in the local area. Infrastructure investment delivers benefits which far outweigh the initial investment: every £1 spent generates at least £2.84 in total economic activity[2].
- The UK construction and infrastructure industry is critical to the economy. It contributes c.7% of GDP to the national economy and employs 3 million people – c.10% of the workforce[3]. It also builds and maintains the infrastructure we all rely on, from roads and railways to schools, hospitals, houses, power stations and flood defences.
- In spite of their importance to the economy, both skills development and key industries like construction and infrastructure are being held back by a paralysis of decision-making.

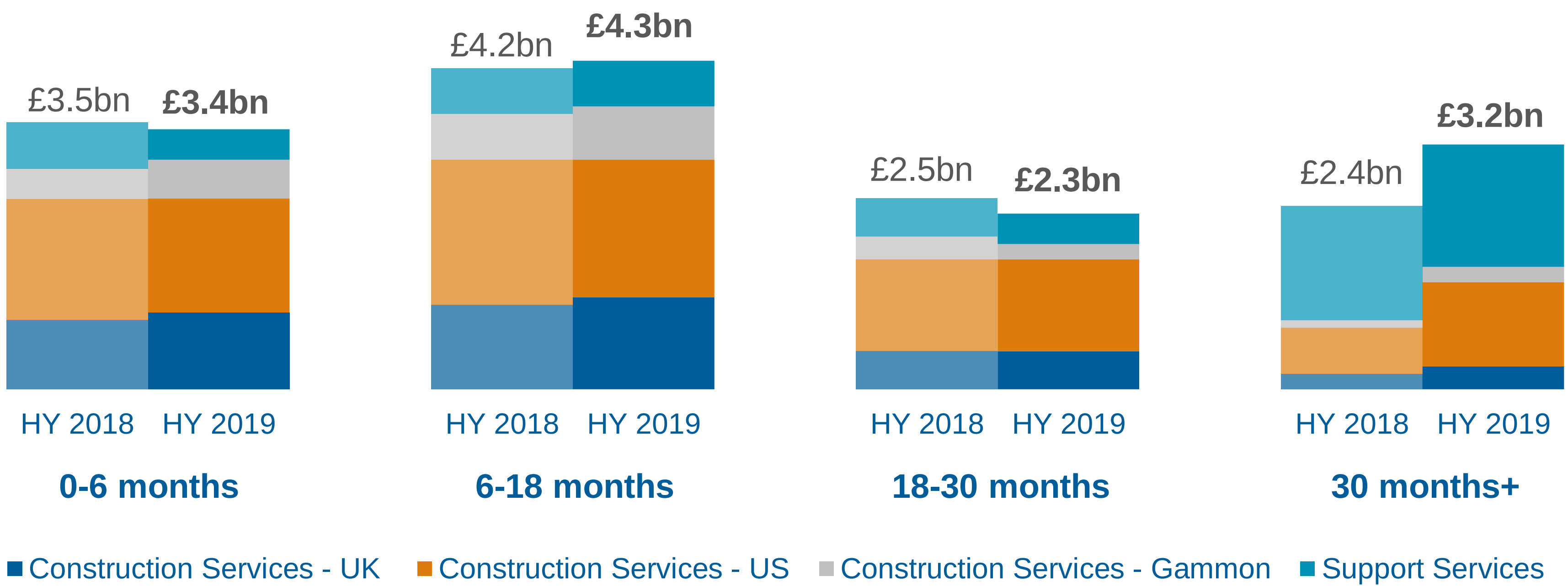
Our skills asks

1. Fix the Levy - Apprenticeships can and should play a core role in addressing the economy's skills gaps, but as it is currently designed, the Apprenticeship Levy does not deliver for the construction and infrastructure industry. The Levy must be fully reviewed, as the Government committed to doing, and must be changed to ensure that it is fit for purpose and delivering the skilled workforce the economy needs. Our recommendations on how the Levy should be amended are set out in our paper Building the Future: Reshaping the Apprenticeship Levy[4].
2. The industry also needs an immigration system which delivers for the construction and infrastructure sector. That immigration system must be flexible enough to allow the industry to access the skilled workers it needs to build these hugely complex, challenging schemes where there is a shortfall of UK workers – which there will be.
3. We welcome the fact that the Government will consult on the £30,000 minimum salary threshold proposed in the Immigration White Paper. In our view, there must be greater flexibility than the White Paper suggests: there must be an approach which allows the construction industry to access the skilled workers it cannot source domestically.
4. We also encourage the Government to consider extending the length of the proposed temporary visas. 12 months is not long enough to offer meaningful assistance with the delivery of large-scale infrastructure. It would mean losing people who have developed specific knowledge and skills relating to a bespoke scheme, and having to then begin again with new people. We propose extending the visas to at least 2 years.

Order book position compared with half year 2018

Total at HY 2019 £13.2bn

Total at HY 2018 £12.6bn



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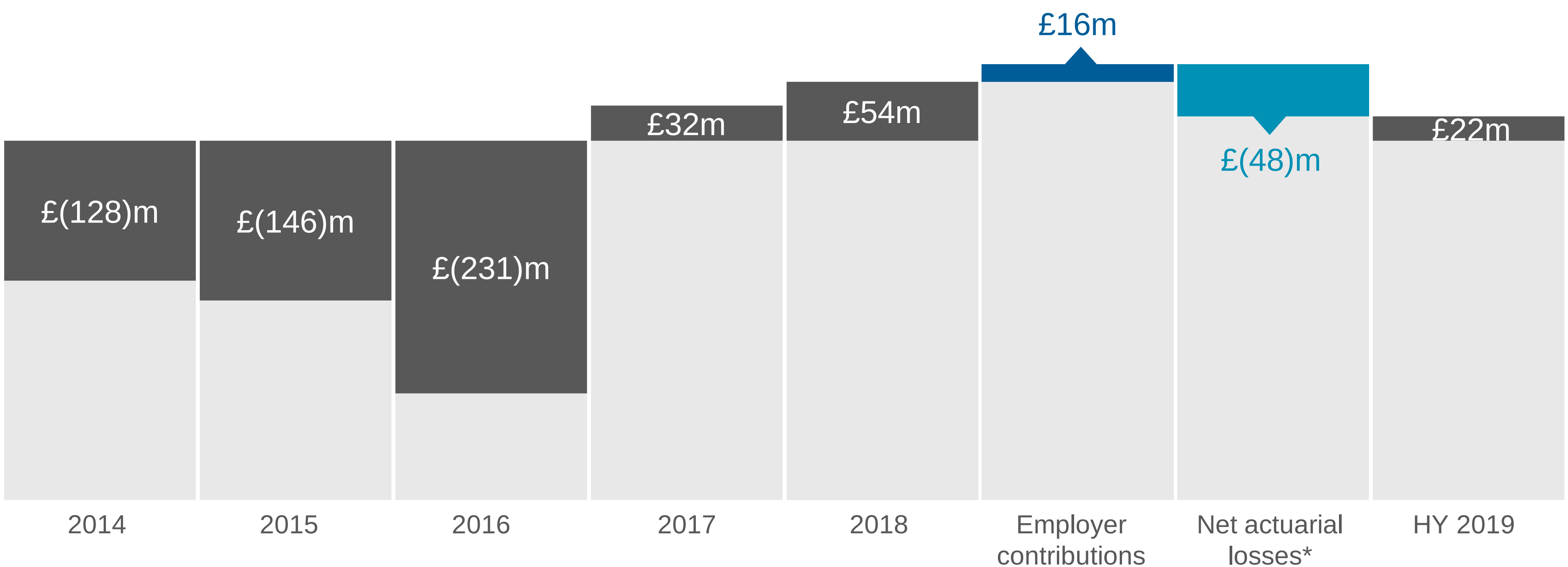
Pensions – balance sheet movement



0.65%	0.7%	(0.7)%	(0.6)%	(0.4)%	Real discount rate	(1.0)%

** including £1m of other movements*

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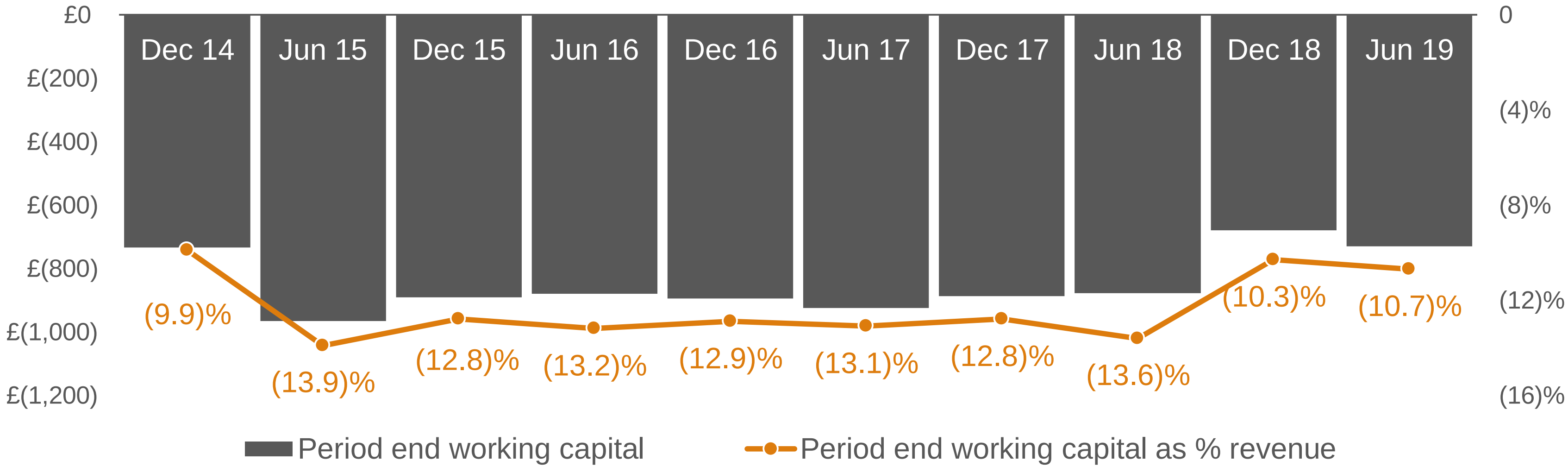
Working capital – Group



Debtor days¹	29	28	27	30	34	37	28	37	33	34
Creditor days¹	46	53	45	52	51	53	46	55	44	49

from continuing operations including non-underlying items
¹ Debtor days include Current trade receivables. Creditor days include Current trade and other payables, excluding accruals

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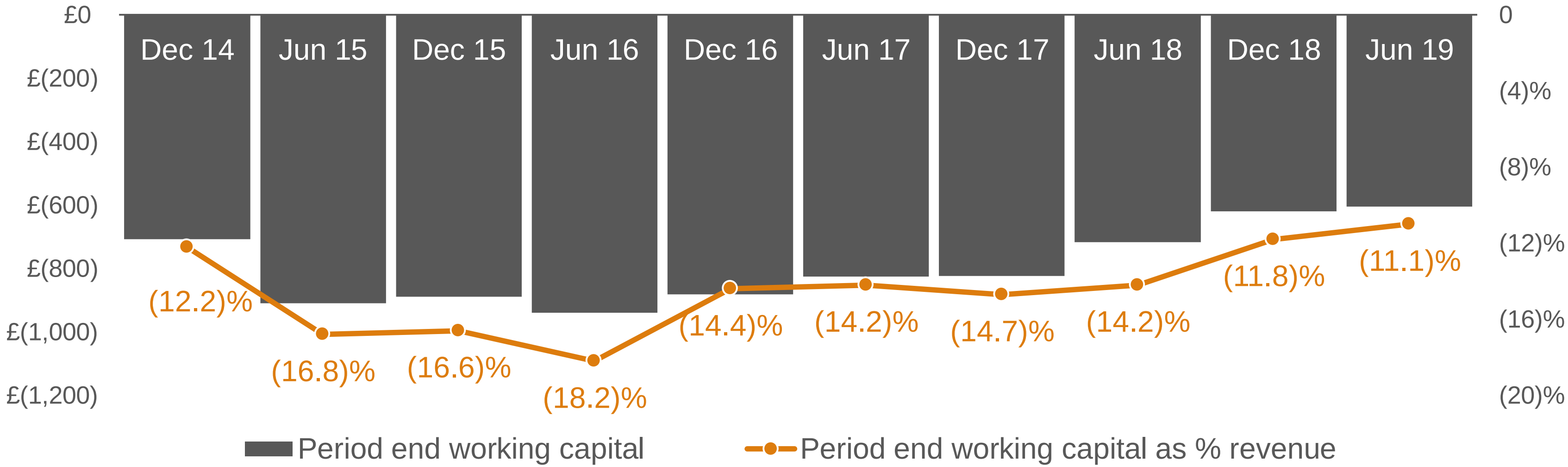
Working capital – Construction Services



from continuing operations including non-underlying items

Balfour Beatty

Group balance sheet

£m	HY 2019	FY 2018	HY 2018
Goodwill and intangible assets	1,178	1,161	1,191
Working capital	(728)	(680)	(877)
Net cash (excluding infrastructure concessions)	425	337	366
Investments in joint ventures and associates	519	524	522
PPP financial assets	156	156	159
Infrastructure concessions – non-recourse net debt	(330)	(309)	(329)
Net retirement benefit assets	22	54	184
Other assets and liabilities	(10)	(2)	24
Net assets	**1,232**	1,241	1,240

Cash flow

£m	HY 2019	HY 2018
Operating cash flows	94	44
Working capital inflow/(outflow)	11	(66)
Pension deficit payments°	(16)	(14)
Cash from/(used in) operations	**89**	(36)
IFRS 16 lease payments	(24)	-
Dividends from joint ventures & associates∞	30	38
Capital expenditure	(13)	(12)
Infrastructure Investments		
Disposal proceeds^	26	108
New investments	(11)	(38)
Other	(9)	(29)
Net cash movement	**88**	31
Opening net cash*	337	335
Closing net cash*	**425**	366
Average net cash*	**290**	161

** excluding infrastructure concessions (non-recourse) net borrowings*
∞ excludes £10m dividends received in HY 2019 in relation to asset disposals within joint ventures and associates
^ includes all cash flows in HY 2019 relating to Investments asset disposals
° includes £1m of regular funding

£m	HY 2019	HY 2018
Working capital		
Inventories	(10)	-
Net contract assets	(36)	-
Trade and other payables	98	52
Trade and other receivables	(37)	(63)
Provisions	(4)	(55)
Working capital inflow/(outflow)≠	**11**	(66)

≠excluding impact of foreign exchange and disposals

- Cash from operations in line with PFO (adjusted for IFRS 16)
- Stable working capital
- Significantly higher average net cash at £290m; upgraded full year guidance to £280 - £300m

IFRS 16 Leases

Background

On 1 January 2019 the Group transitioned from IAS 17 *Leases* to IFRS 16 *Leases*

The new standard replaces IAS 17 *Leases* and eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model

Under the old leasing standard IAS 17, operating lease hire costs were recorded within profit from operations (PFO) as incurred

Under IFRS 16, depreciation charges on right-of-use assets are recorded in PFO and interest costs on the unwind of the corresponding lease liabilities are recognised as part of finance costs

Transition

The Group elected to use the cumulative effect approach which does not require restating comparative years

On transition the Group recognised £121m of right-of-use assets and £129m of corresponding lease liabilities. There was no adjustment to opening equity – the difference relates to reclassification of other balance sheet items

HY 2019

Income statement

- Profit from operations +£3m
- Finance costs +£3m
- Net nil impact on profit before tax
- PFO includes £21m of depreciation charges on right-of-use assets

Operating cash flow

The lease cash expense previously included in operating activities is now included in financing activities

- Cash from operating activities +£24m
- Cash from financing activities -£24m
- Net nil impact on cashflow

Net cash

The Group excludes IFRS 16 lease liabilities from its measure of net cash/borrowings as they are excluded from the definition of net debt set out in the Group's borrowing facilities

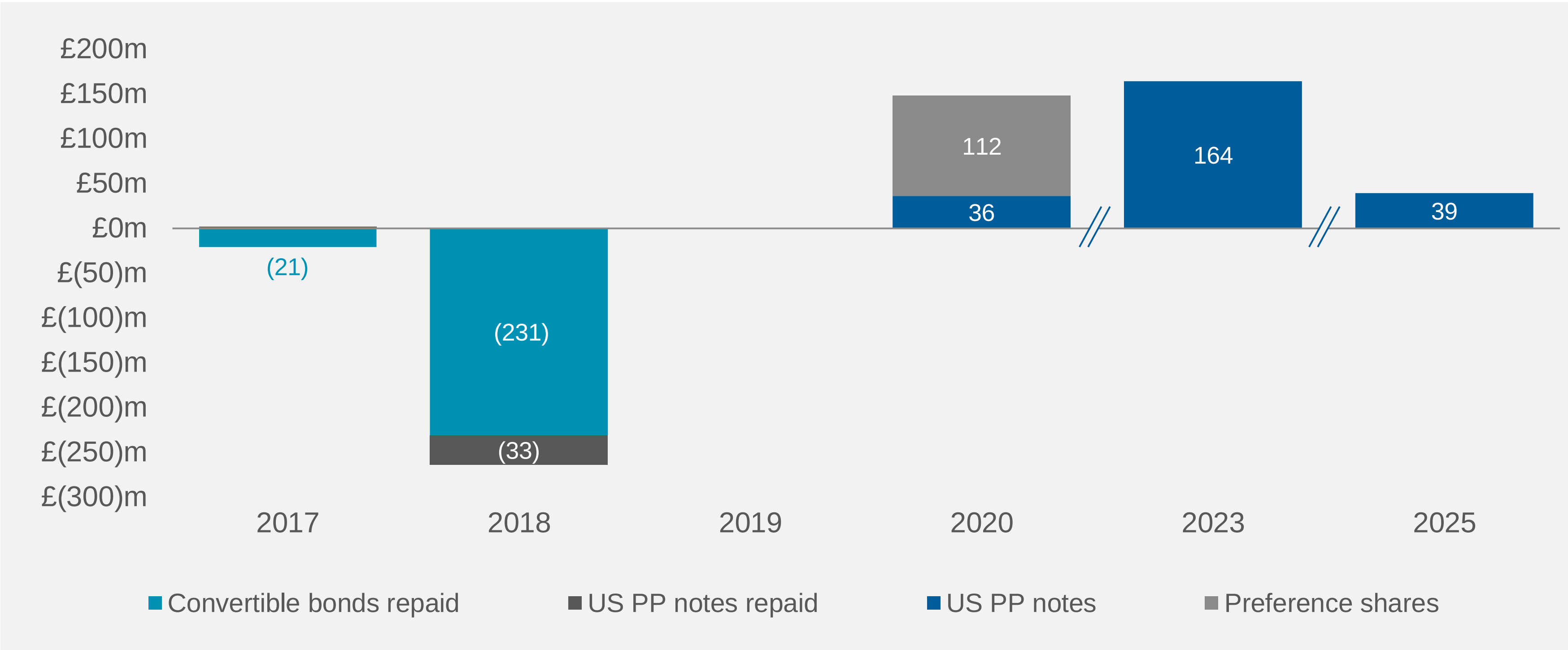
Net interest cost

£m		**HY 2019**	HY 2018
Subordinated debt interest receivable	13		
Interest on PPP financial assets	4		
Interest on non-recourse borrowings	(7)	10	10
Net finance income – pension schemes		1	1
Other interest receivable	1		
Other interest payable	(3)	(2)	(4)
US private placement		(6)	(6)
Convertible bonds		-	(4)
Preference shares			
Finance cost	(6)		
Accretion	(2)	(8)	(7)
Interest on lease liabilities		(3)	-
Net interest cost		**(8)**	(10)

Non-underlying items

£m	HY 2019	HY 2018
Trading		
Rail Germany	-	1
Impairment and amortisation		
Amortisation of acquired intangibles	(3)	(4)
Restructuring and reorganisation		
Build to Last transformation costs	-	(5)
Disposals and other		
Provision release relating to settlements of health and safety claims	2	7
Additional loss on the AWPR contract as a result of Carillion filing for liquidation	-	(8)
Additional gain on disposal of Balfour Beatty Infrastructure Partners	-	3
Tax		
Non-underlying recognition of deferred tax assets in the UK	(6)	20
Other	1	3
Total non-underlying items	**(6)**	17

Borrowing repayment profile



The Group has committed revolving credit facilities of £400m extending through to 2020
At 28 June 2019 all of these facilities were undrawn

Balfour Beatty

Improved returns from de-risked business

GEOGRAPHIC

Simplified and refocused on growing markets in UK, US and Hong Kong

Exited construction in Middle East, Indonesia, Australia, Malaysia and Canada

COMMERCIAL

Selective bidding for contracts best aligned with Group's infrastructure capabilities

Managed order book on more favourable commercial terms

OPERATIONAL

Upgraded leadership and governance

Short interval control via Gated Lifecycle, Digital Briefcase and Project on a Page app

FINANCIAL

Strong balance sheet; running business with average net cash (HY 2019: £290m)

Directors' valuation of Investments portfolio £1.16 billion (£1.69 per share)

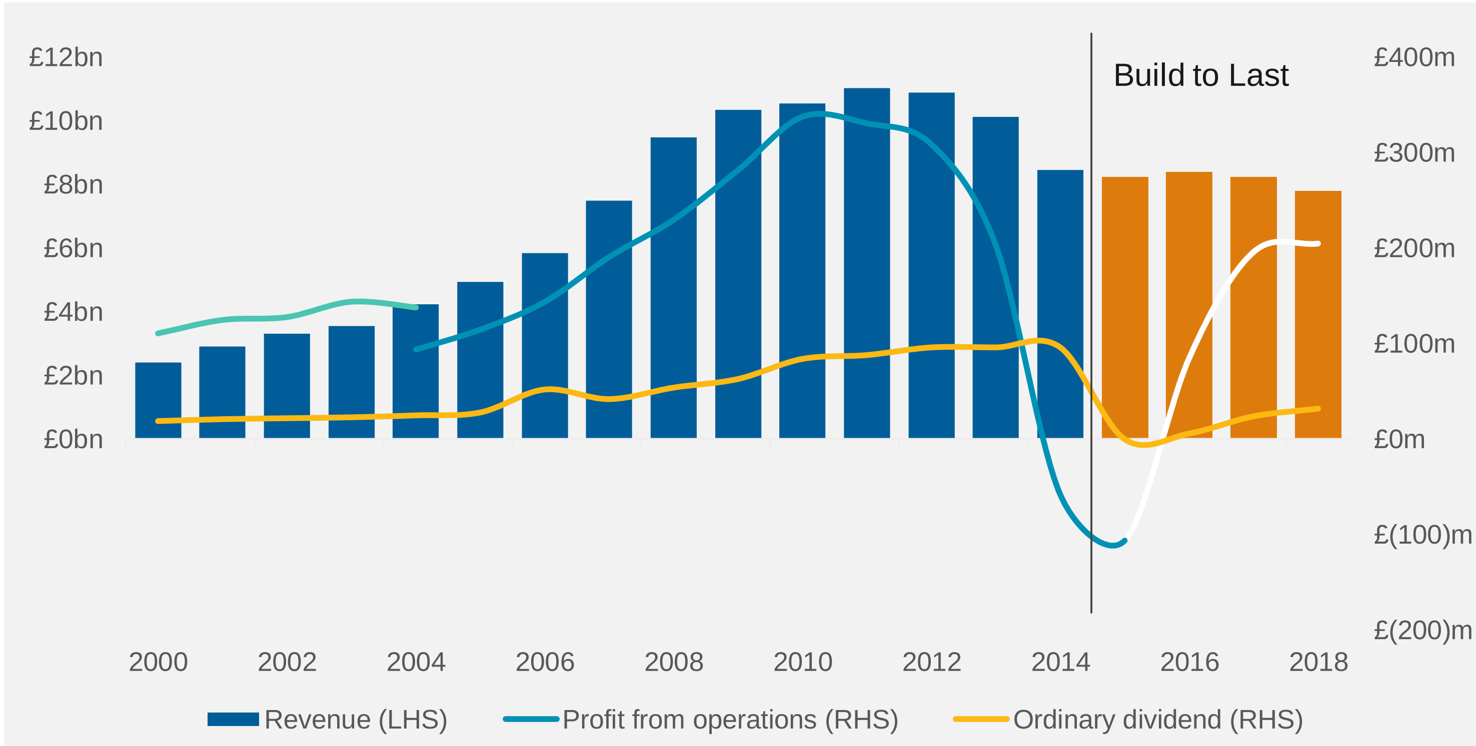
Financial history

450%
Increase in revenue

45
Acquisitions

£94m
Average ordinary dividend (2011-2014)

£16m
Average ordinary dividend (2015-2018)



Balfour Beatty