

News Release

14 December 2018

BALFOUR BEATTY TRADING UPDATE – ON COURSE TO DELIVER INDUSTRY STANDARD MARGINS

Balfour Beatty, the international infrastructure group, provides a trading update covering the period to 13 December 2018.

GROUP

Group performance for the year will be above previous expectations as a result of an additional Infrastructure Investments sale in December. The Group now forecasts that the 2018 Infrastructure Investments profit from disposals will be around £65 million.

The Group continues to drive fundamental transformation under the Build to Last programme, as evidenced by the fact that it expects to deliver on its key Phase Two targets, with all earnings based businesses successfully achieving industry standard margins for the second half of 2018.

Balfour Beatty continues to strengthen its balance sheet. In December, the Group paid down the remaining convertible bonds, delivering a 45% reduction in the gross debt over the last 12 months. The year end net cash is expected to be broadly in line with prior year, with 2018 average monthly net cash now forecast at £185 million, ahead of the previous £140 million to £170 million guidance range.

As expected, Group revenue in the second half of 2018 will be in line with the first half. Looking ahead, Balfour Beatty is selectively winning work in all its chosen markets, both on the right terms and at appropriate margins, which reflect the bidding discipline and risk management introduced under Build to Last. The forecast year end order book is around £12 billion, higher than the 2017 year end (£11.4 billion).

CONSTRUCTION SERVICES

UK Construction is expected to achieve industry standard margins in the second half of 2018 in the range of 2-3%. At the Aberdeen Western Peripheral Route project, completion of the full route is

expected in 2018, with the construction joint venture continuing its dialogue with Transport Scotland on a commercial agreement in relation to associated claims.

US Construction has made progress during the year with the business now on a positive trajectory under its new structure and leadership. In line with prior guidance, revenue in the second half of the year is expected to be similar to the first half. Profit from operations is forecast to grow showing further improvement within the industry standard target range of 1-2%.

Gammon, the Group's 50:50 Far East joint venture, is expected to deliver a strong 2018 performance with increased profit from operations. It is also expected to grow its order book following the recent award of the HK\$5.5 billion (c. £550 million) L2 Works Contract at the Lyric Theatre Complex.

SUPPORT SERVICES

Profit from operations is expected to grow, with the margin showing further improvement within its 3-5% industry standard target range. Outperformance in Transportation, particularly the road maintenance business, has been partly offset by Utilities where the Group continues to restructure and reduce the cost base. The Group was awarded, in October, a seven year, £103 million contract by Telford and Wrekin Council for the maintenance of highways assets.

INFRASTRUCTURE INVESTMENTS

Infrastructure Investments continues to deliver a strong performance, whilst selectively investing in new opportunities. In line with its strategy of optimising value through the disposal of operational assets and following the sale of its interest in Fife Hospital for £43 million in September, the Group expects to complete a partial sale of 80% of its Edinburgh University student accommodation project for £24 million. Both transactions exceed the Directors' valuation as at 30 June 2018.

MARKETS

The Group primarily operates across three chosen geographies (UK & Ireland, US and the Far East) and three core sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector. Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

Leo Quinn, Balfour Beatty Group Chief Executive, said: “We are on track to deliver our Build to Last Phase Two goal of achieving industry standard margins in all earnings based businesses in the second half of 2018.

“The actions we have taken since the start of 2015 have created a strong foundation for the future. We have consistently invested in our capabilities, systems and leadership while de-risking the business, strengthening the balance sheet and selectively building the order book.

“Going forward, we aim to drive market leading performance by using the disciplines we have instilled to translate Balfour Beatty’s expert capabilities into long term profitable growth.”

The Group’s full year results will be published on 13 March 2019.

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Notes to editors:

- Balfour Beatty (www.balfourbeatty.com) is a leading international infrastructure group. With 28,000 employees, we provide innovative and efficient infrastructure that underpins our daily lives, supports communities and enables economic growth. We finance, develop, build and maintain complex infrastructure such as transportation, power and utility systems, social and commercial buildings.
- Our main geographies are the UK & Ireland, US and the Far East. Over the last 100 years we have created iconic buildings and infrastructure all over the world including the London Olympics’ Aquatic Centre, Hong Kong’s first Zero Carbon building, the National Museum of the Marine Corps in the US and the Channel Tunnel Rail Link.