2018 full year results presentation

13 March 2019

Caltrain project: US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose

Balfour Beatty

Leo Quinn

Group Chief Executive

2018 Build to Last highlights

Delivered industry standard margins

Gross debt reduced by 40%; paid down convertible bonds

Order book up 11% to £12.6 billion

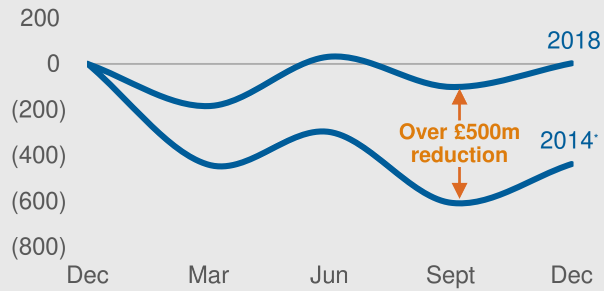
Construction Services profit from operations up 32%

Value being created through Build to Last

Build to Last goals

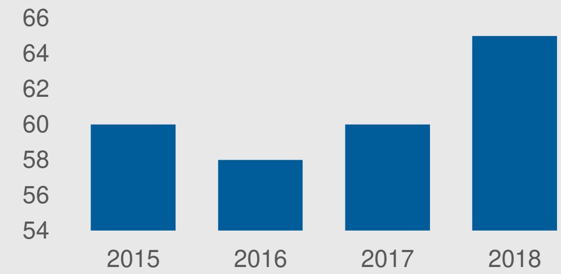
Lean

Cumulative annual cash flow^ (£m)



Expert

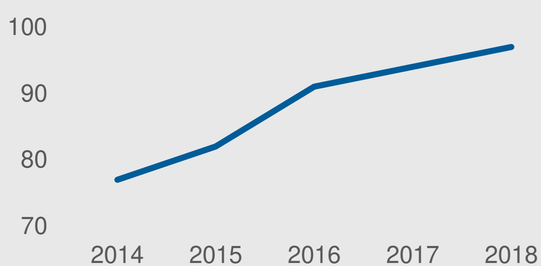
Employee engagement index (%)



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

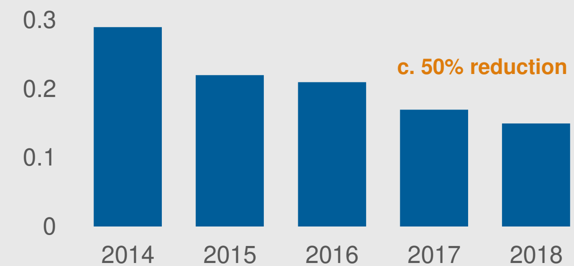
Trusted

Customer satisfaction average (%)



Safe

Lost time injury rate*



** excluding international joint ventures*

Delivering on all Build to Last goals

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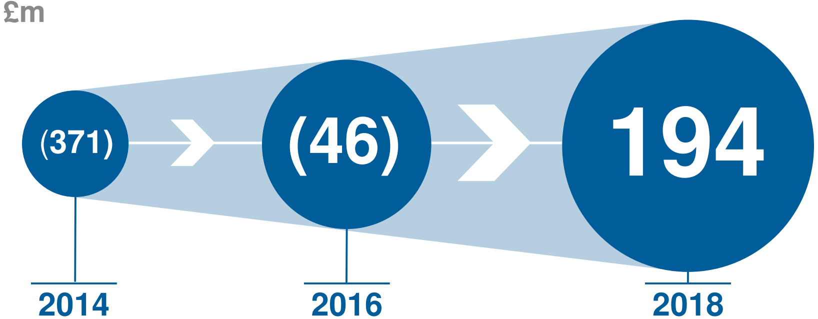
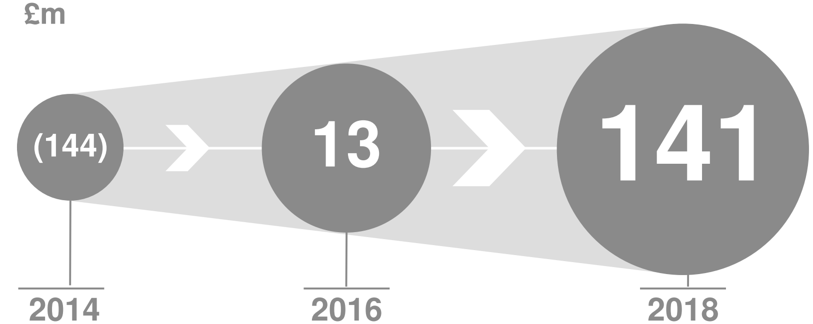
Wider benefits of Build to Last

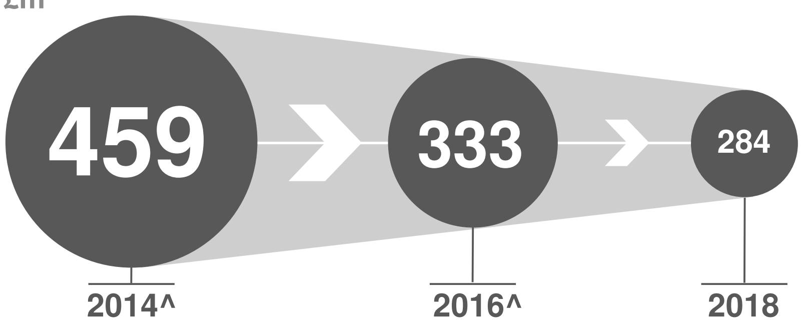
Average net cash/(debt)
£m



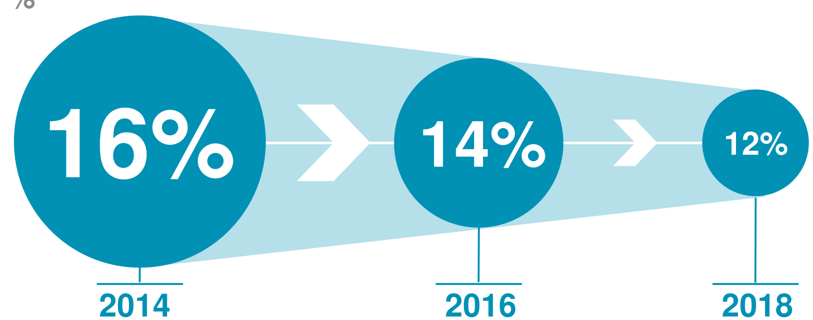
Earnings based businesses profit/(loss) from operations*
£m



Other net operating expenses*
£m



UK voluntary attrition: moving annual average
%



Well positioned to achieve market leading performance

* from continuing operations, before non-underlying
^ 2014 and 2016 other net operating expenses recalculated on a Constant Exchange Rate (CER) basis

Phil Harrison

Chief Financial Officer

Headline numbers

£m (unless otherwise stated)	2018	2017
Revenue*	**7,802**	8,234
Profit from operations*	**205**	196
Pre-tax profit*	**181**	165
Profit for the year*	**179**	143
Basic earnings per share*	**26.3p**	20.9p
Dividends per share	**4.8p**	3.6p
Order book*	**£12.6bn**	£11.4bn
Directors' valuation of Investments portfolio	**£1.15bn**	£1.24bn
Year end net cash≠	**337**	335
Average net cash≠	**194**	42

** from continuing operations, before non-underlying items*
≠ excluding infrastructure concessions (non-recourse) net debt

Results demonstrate value being created through Build to Last

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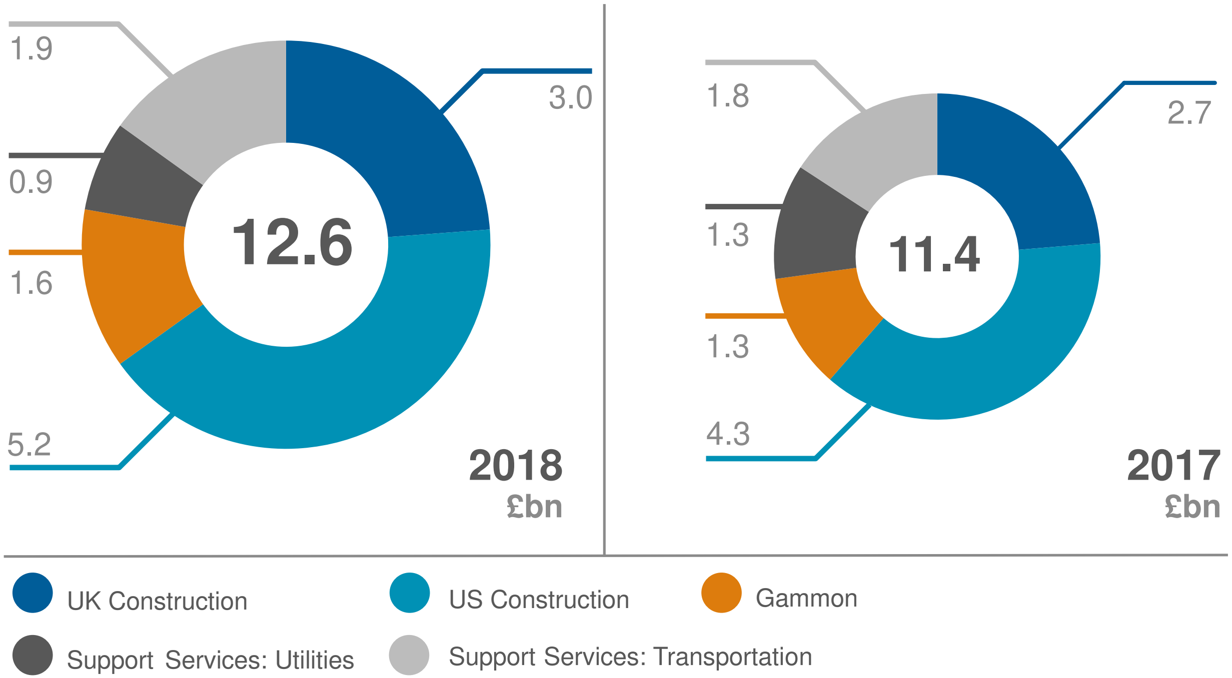
Underlying profit from operations

£m	2018*	2017*	Change
UK Construction	28	16	75%
US Construction	44	41	7%
Gammon	23	15	53%
Construction Services	**95**	72	32%
Support Services	**46**	41	12%
Earnings based businesses	**141**	113	25%
Infrastructure Investments	**97**	116	(16)%
Corporate activities	**(33)**	(33)	-
Total	**205**	196	5%

** from continuing operations, before non-underlying items*

Continuing improvement in earnings based businesses

Order book



- Maintained Group's disciplined bidding strategy
- Increased bid margin thresholds, lower risk contract portfolio
- 11% increase (8% at CER) driven by US bookings
- £3.5bn* HS2 Lots N1 & N2 & Old Oak Common not included

** Lots N1 and N2 £2.5bn (50:50 joint venture) and Old Oak Common station £1.0bn (42% Balfour Beatty joint venture)*

Higher quality order book up 11% at £12.6 billion

Construction Services

	H1 2018*			H2 2018*			FY 2018*			FY 2017*		
£m	Revenue	PFO	PFO%	Revenue	PFO	PFO%	Revenue	PFO	PFO%	Revenue	PFO	PFO%
UK	947	5	0.5%	953	23	2.4%	1,900	28	1.5%	1,998	16	0.8%
US	1,577	17	1.1%	1,752	27	1.5%	3,329	44	1.3%	3,634	41	1.1%
Gammon	451	10	2.2%	447	13	2.9%	898	23	2.6%	1,017	15	1.5%
Total	**2,975**	**32**		**3,152**	**63**		**6,127**	**95**		6,649	72	

** from continuing operations, before non-underlying items*

- UK Construction and US Construction delivered industry standard margins in H2 2018
- Increased profit and margin percentage across all three chosen markets
- Revenue decreased 8% (CER 6%) following managed reduction in order book during 2017

Achieved industry standard margins in second half of 2018

Support Services

£m	H1 2018	H2 2018	FY 2018	FY 2017
Revenue				
Utilities	308	343	651	608
Transportation	235	218	453	453
Total	**543**	**561**	**1,104**	1,061
Profit from operations*	**17**	**29**	**46**	41
PFO margin*	3.1%	5.2%	4.2%	3.9%

** before non-underlying items*

- H2 2018 PFO margin at 5.2%, above 3-5% industry standard margin range
- Power: continued restructure; focus on core markets
- Gas and Water: focus on AMP7 contract terms
- Highways: Area 10 contract complete; good local authorities opportunities
- Rail: London Underground contract re-awarded in 2019

Continuing margin improvement

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Infrastructure Investments

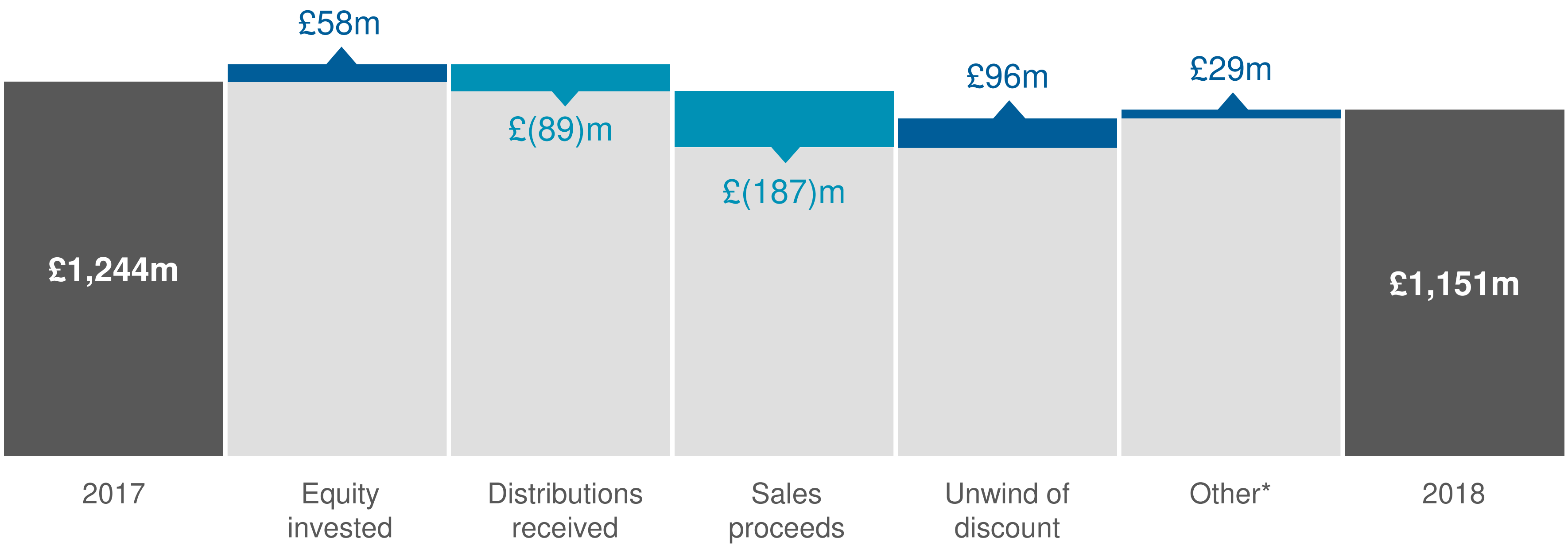
£m	2018	2017
Pre-disposals operating profit*	17	30
Profit on disposals*	80	86
Investments profit*	**97**	116
Subordinated debt interest receivable	21	26
Infrastructure concessions' net interest	(5)	(2)
Investments pre-tax profit*	**113**	140

** before non-underlying items*

- Following significant disposals in 2017, operating profit decreased
- In 2017 sold 20% interest in M25; in 2018 sold additional 5%; Group retains 15% holding in the asset
- Other key 2018 disposals include Fife Hospital and student accommodation projects in UK and US
- Five new projects added to the portfolio in the year

Continuing to optimise value

Directors' valuation of Investments portfolio



** other includes foreign exchange £36m, movements in operational performance (£18m), new project wins £7m and gain on sales £4m*

Directors' valuation remains broadly stable at £1.2bn

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Cash flow

£m	2018	2017
Operating cash flows	124	39
Working capital (outflow)/inflow	(229)	27
Pension deficit payments	(27)	(25)
Cash (used in)/from operations	**(132)**	41
Infrastructure Investments		
Disposal proceeds	187	105
New investments	(58)	(35)
Other	5	51
Net cash movement	**2**	162
Opening net cash*	335	173
Closing net cash*	**337**	335
Average net cash*	**194**	42

** excluding infrastructure concessions (non-recourse) net debt*

£m	2018	2017
Working capital		
Inventories	(16)	(12)
Net contract assets	51	7
Trade & other payables	(196)	(92)
Trade & other receivables	12	95
Provisions	(80)	29
Working capital (outflow)/inflow	**(229)**	27

- Improved average net cash of £194m
- 2019 average net cash guidance £220m - £260m
- Working capital outflow due to AWPR, lower revenue in US and improved supply chain payment processes

Improving average net cash provides balance sheet strength

Financing and tax

Gross debt
Over 40% gross debt reduction in 2018; expect lower interest charge in 2019

Revolving credit facilities
£400 million committed bank facilities maintained and undrawn throughout 2018

Supply chain financing
Immaterial scheme (£200k at end 2017); officially closed in December 2018

Group taxation
Effective US tax rate: 26%
Effective UK tax rate: half UK statutory rate

Balance sheet strength provides competitive advantage

Capital priorities

1 **Invest in opportunities to strengthen market leadership** → c.£440 million invested in capex, capability & equity assets to date through Build to Last

2 **Pay down borrowings** → Over 40% gross debt reduction in year; next material repayment £112 million preference shares in July 2020

3 **Increase dividend** → Dividend increased 33% year on year; expected continuation of progressive policy

4 **Return capital** → Flexibility to return surplus capital to shareholders in medium term

Focus on value creation

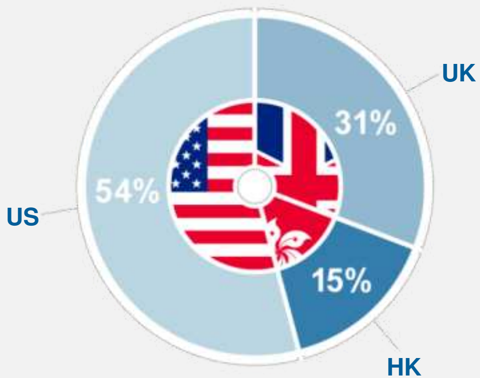
Leo Quinn

Group Chief Executive

Platform for profitable managed growth

Creating long term value

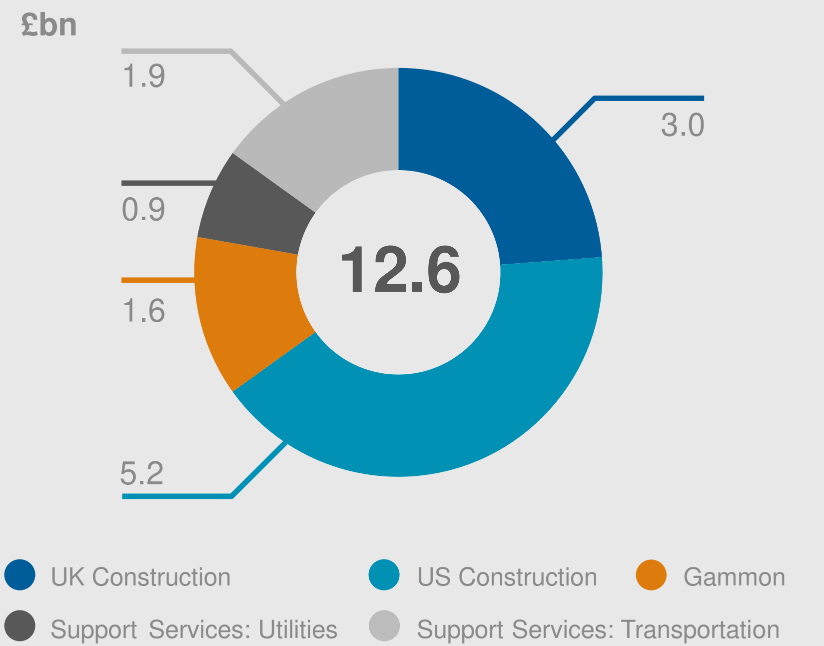
Strong chosen markets

Construction Services revenue by geography	**US** Positive infrastructure market	**UK** Positive infrastructure market	**HK** Positive infrastructure market
	Fixing America's Surface Transportation (FAST) Act US$305bn	HS2 £56bn	10 year hospital development plan HK$200bn
	Nationwide transportation bonds > US$200bn	Heathrow airport expansion £33bn	HK International airport third runway HK$140bn
	California education bonds > US$35bn	Highways England £32bn	MTR upgrade HK$110bn
	Local infrastructure taxes LA 28 by 2028	Hinkley Point C £20bn	Central Kowloon Highway HK$42bn

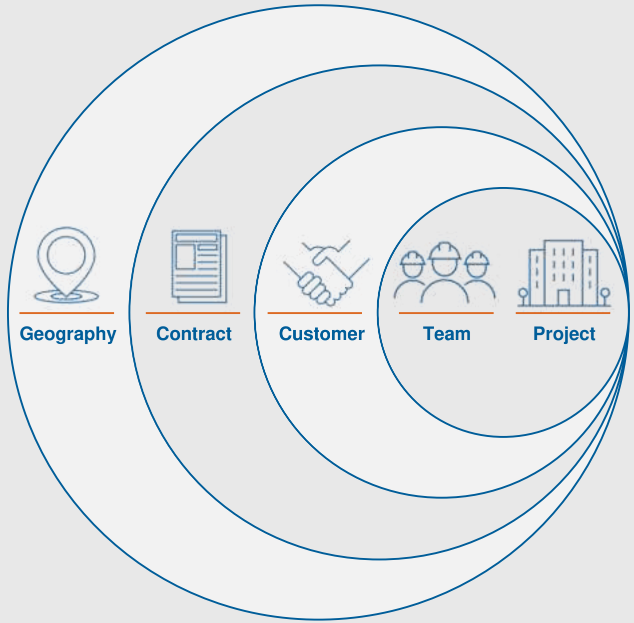
Large diversified markets

Managed growth

2018 order book



Circles of risk



Embedding a culture of active risk management

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Market leading engineering expertise

Dorenell Wind Farm
Installed 148 composite poles

Hinkley Point C
Marine tunnels, M&E, cabling & overhead lines

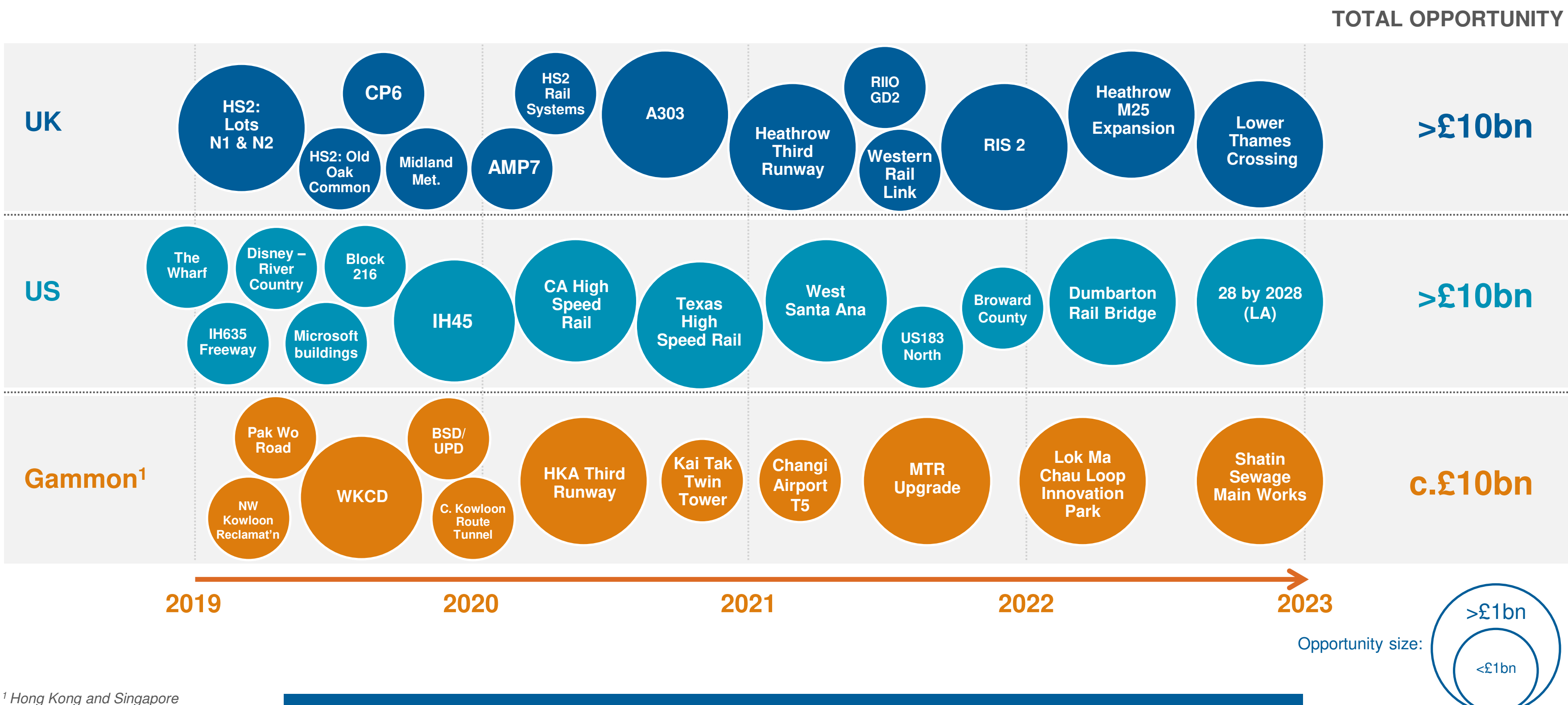
Eleclink
Two 50km cables through Channel Tunnel

AWPR
58km dual carriageway with 72 structures

Expertly positioned to lead the market

Balfour Beatty

Strong market pipeline



[1] *Hong Kong and Singapore*

Well positioned to capitalise on pipeline of opportunities

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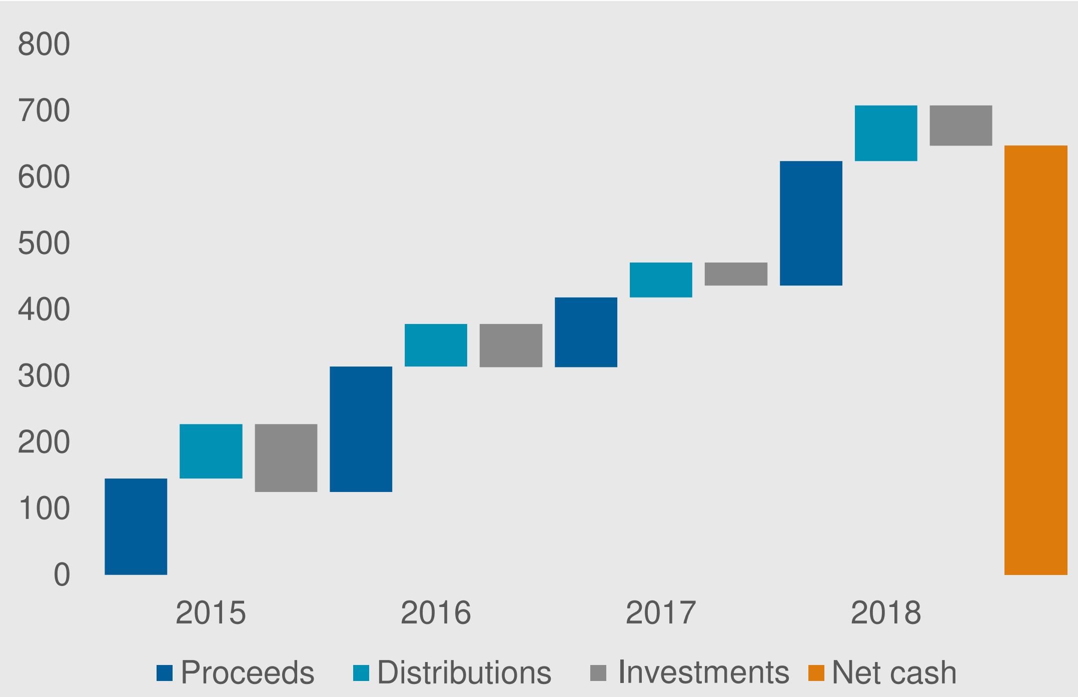
Actively managed Investments portfolio

Infrastructure Investments value crystallised (£m)



- Enhanced returns when Investments, Construction and Services deliver as one
- Access construction opportunities with an equity investment versus bidding to third parties
- Around £650m net cash distributions since 2015. Investments over £250m; distributions around £300m; and sales proceeds over £600m
- All disposals at, or above, Directors' valuation
- Continue to invest with focus towards US opportunities
  - US: PPP projects, multifamily and student accommodation
  - UK: Student accommodation

A continuing source of value creation

Balfour Beatty

Infrastructure Investments – a transformed portfolio

Directors' valuation by geography

US+

57%

(2014: 26%)

UK^

43%

(2014: 74%)

Directors' valuation by sector (£m)	2018	2014*
Roads	205	467
Healthcare	109	225
Other PFI	18	116
Non-PFI	159	135
UK total^	491	943
US military housing	532	322
North America other	128	15
US total≠	660	337
Total	**1,151**	1,280

Directors' valuation by phase (£m)	2018	2014*
Operations	1,003	1,128
Construction	130	137
Preferred bidder	18	15
Total	**1,151**	1,280

^ UK includes Singapore and Ireland
≠ US includes Canada
** excluding BBIP*

Actively managed portfolio maximising shareholder value

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Build to Last scalable platform

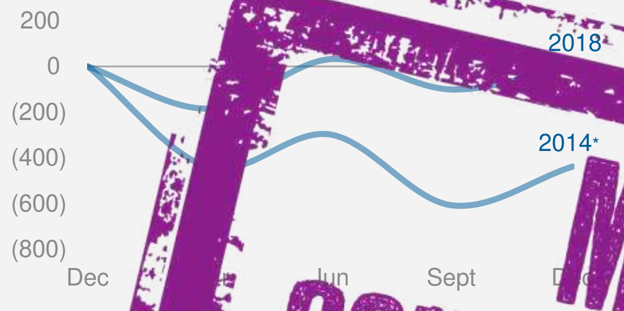
	Common platforms and systems	Efficient back office	Streamlined supply chain	Leaned out support functions
	Number of Group employees on R12/JD Edwards	UK cost per payslip	UK supply chain partners	Annual IT costs
2015	c.6,500	£6.21	c.37,000	£78m
2018	**c.13,000**	**£2.26**	**c.9,500**	**£53m**

A competitive platform for scalable growth

Continuous improvement

Lean

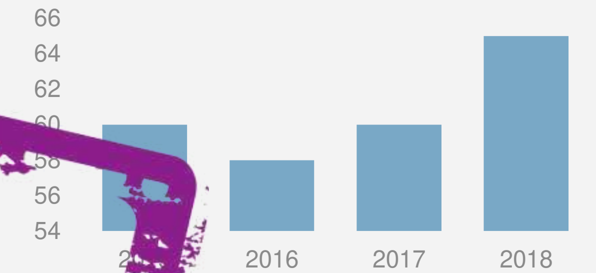
Cumulative annual cash flow^ (£m)



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

Expert

Employee engagement (%)

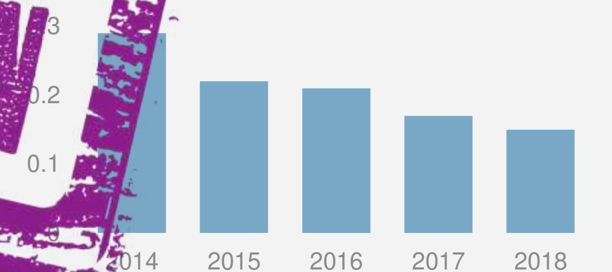


Trusted

Customer satisfaction average (%)

Safe

Lost time injury rate



* excluding international joint ventures

MY CONTRIBUTION

POWERED BY SIDEWAYS 6

My Contribution driving marginal gains

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Profitable managed growth

Increasing revenue	Well positioned to capitalise on pipeline of opportunities
Improving margins	Embedding a culture of active risk management
Reducing overheads	A competitive platform for scalable growth
Strong balance sheet	Balance sheet strength provides competitive advantage

Well positioned for profitable managed growth

Appendix

Forward-looking statements

Disclaimer Cautionary 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 2018 full 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.

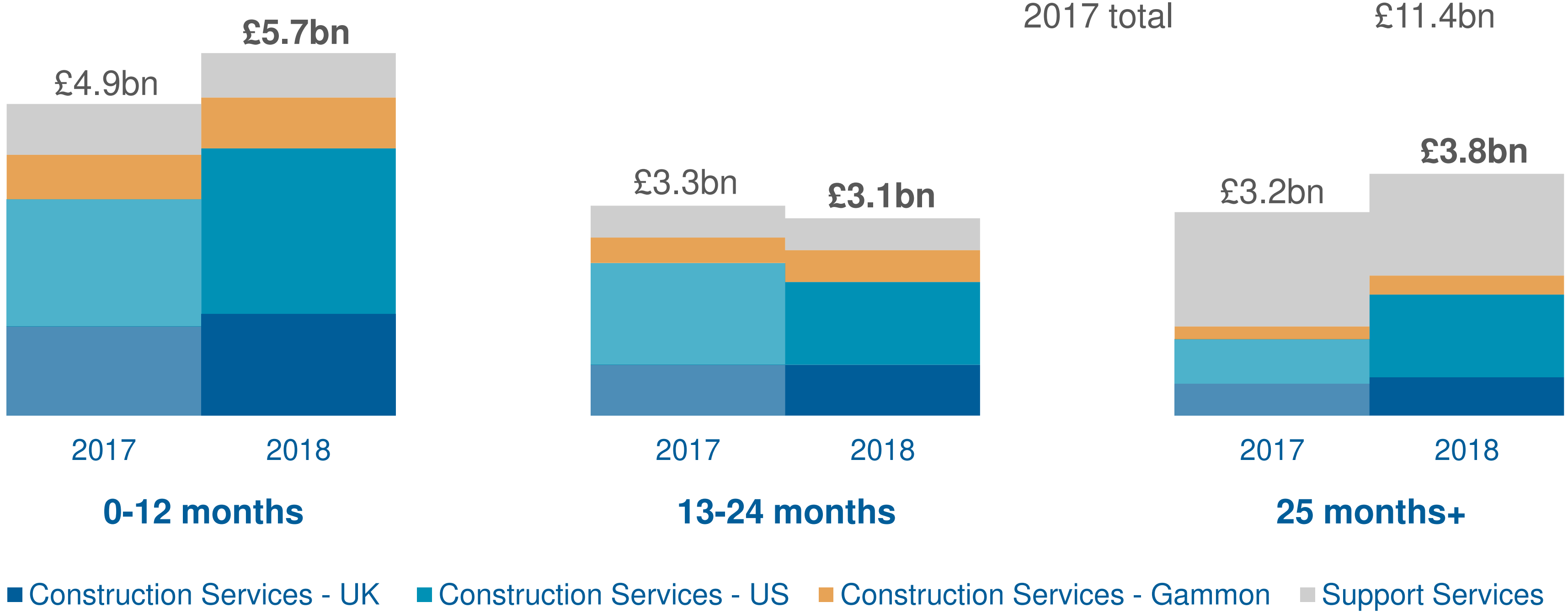
A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 58 to 66 of the Annual Report and Accounts 2018.

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 2018 full 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 its historical earnings per share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

Order book position compared with prior year

2018 total **£12.6bn**

2017 total £11.4bn



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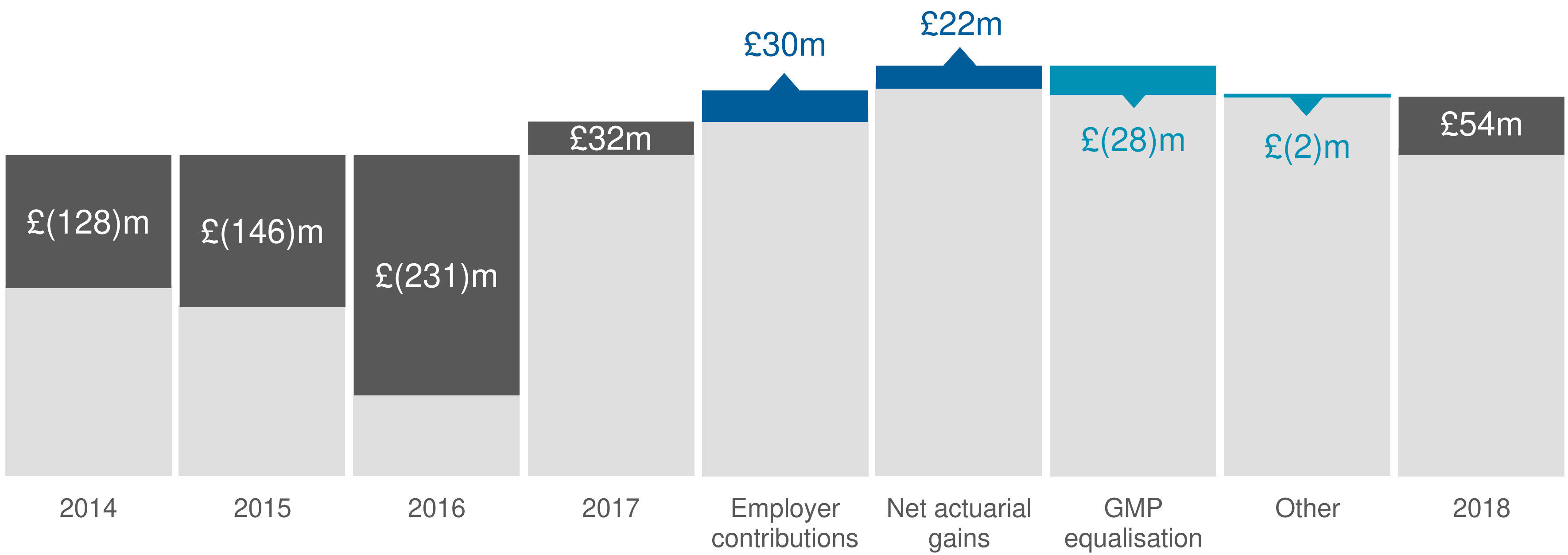
Pensions – balance sheet movement



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

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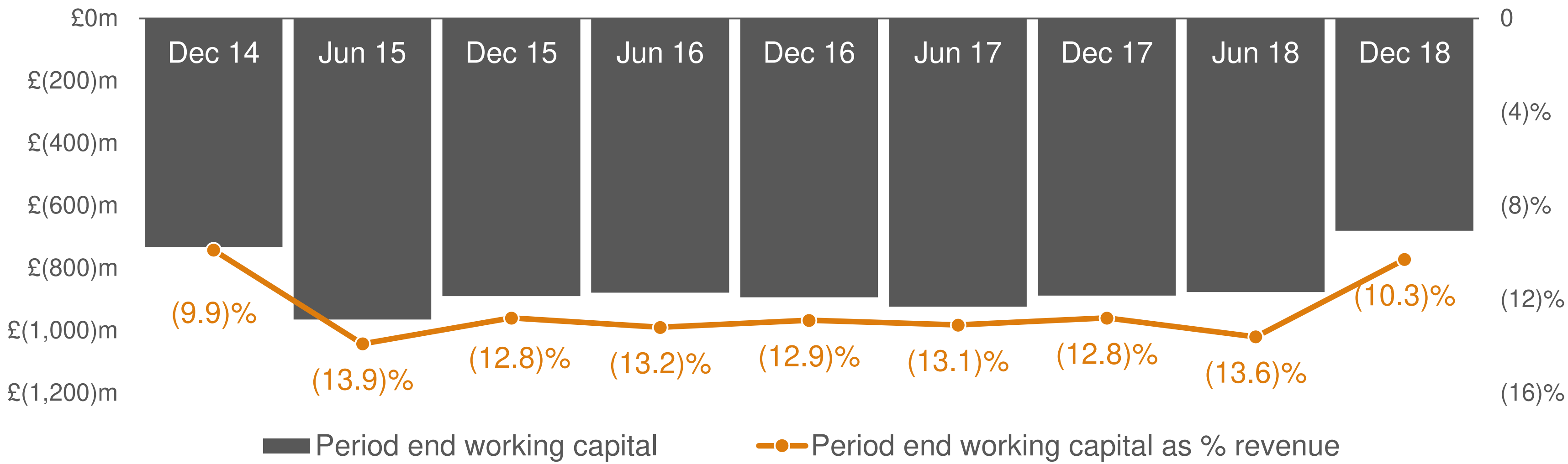
Working capital – Group



Debtor days[1]	29	28	27	30	34	37	28	37	33
Creditor days[1]	46	53	45	52	51	53	46	55	44

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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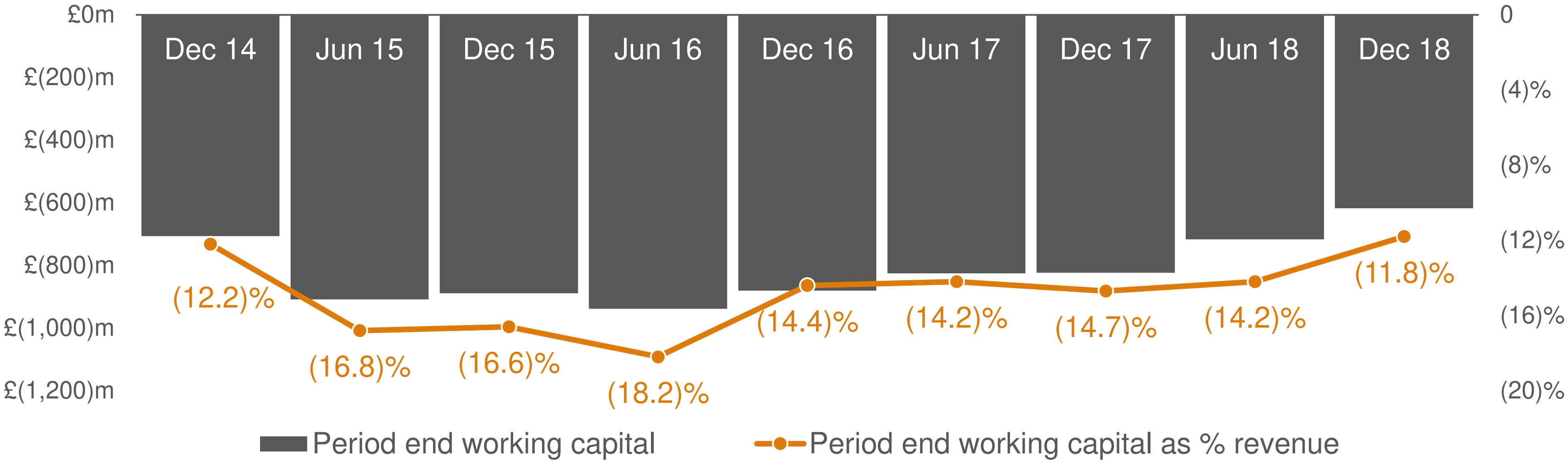
Working capital – Construction Services



from continuing operations including non-underlying items

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Net interest cost

£m		**2018**	2017
Subordinated debt interest receivable	21		
Interest on PPP financial assets	9		
Interest on non-recourse borrowings	(14)	16	24
Net finance income/(cost) – pension schemes		2	(6)
Other interest receivable	3		
Other interest payable	(9)	(6)	(9)
US private placement		(12)	(13)
Convertible bonds			
Finance cost	(4)		
Accretion	(5)	(9)	(12)
Preference shares			
Finance cost	(12)		
Accretion	(3)	(15)	(15)
Net interest cost		**(24)**	(31)

Non-underlying items

£m	2018	2017
Impairment and amortisation		
Amortisation of acquired intangibles	(8)	(9)
Restructuring and reorganisation		
Build to Last transformation costs	(11)	(12)
Disposals and other		
Additional loss on the AWPR contract as a result of Carillion filing for liquidation	(10)	(44)
Loss arising from recognition of GMP equalisation on pension schemes	(28)	-
Provision release relating to settlements of health and safety claims	13	-
Additional gain on disposal of Balfour Beatty Infrastructure Partners	3	-
(Loss)/gain on disposal of Heery International Inc.	(12)	18
Costs relating to the liquidation of the Malaysia joint venture	(5)	-
Loss on disposal of Blackpool Airport	-	(1)
Tax		
Recognition of GMP equalisation on the Group's pension schemes	5	-
Other	9	2
Non-underlying recognition of deferred tax assets in the UK	-	34
Reduced US Federal corporate income tax rate	-	32
Non-underlying items after tax	**(44)**	20
Non-underlying profit from discontinued operations	-	5
Total non-underlying items	**(44)**	25

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Group balance sheet

£m	2018	2017
Goodwill and intangible assets	1,161	1,155
Working capital	(680)	(888)
Net cash (excluding infrastructure concessions)	337	335
Investments in joint ventures and associates	524	531
PPP financial assets	156	163
Infrastructure concessions – non-recourse net debt	(309)	(305)
Net retirement benefit assets	54	32
Other assets and liabilities	(2)	43
Net assets	**1,241**	1,066

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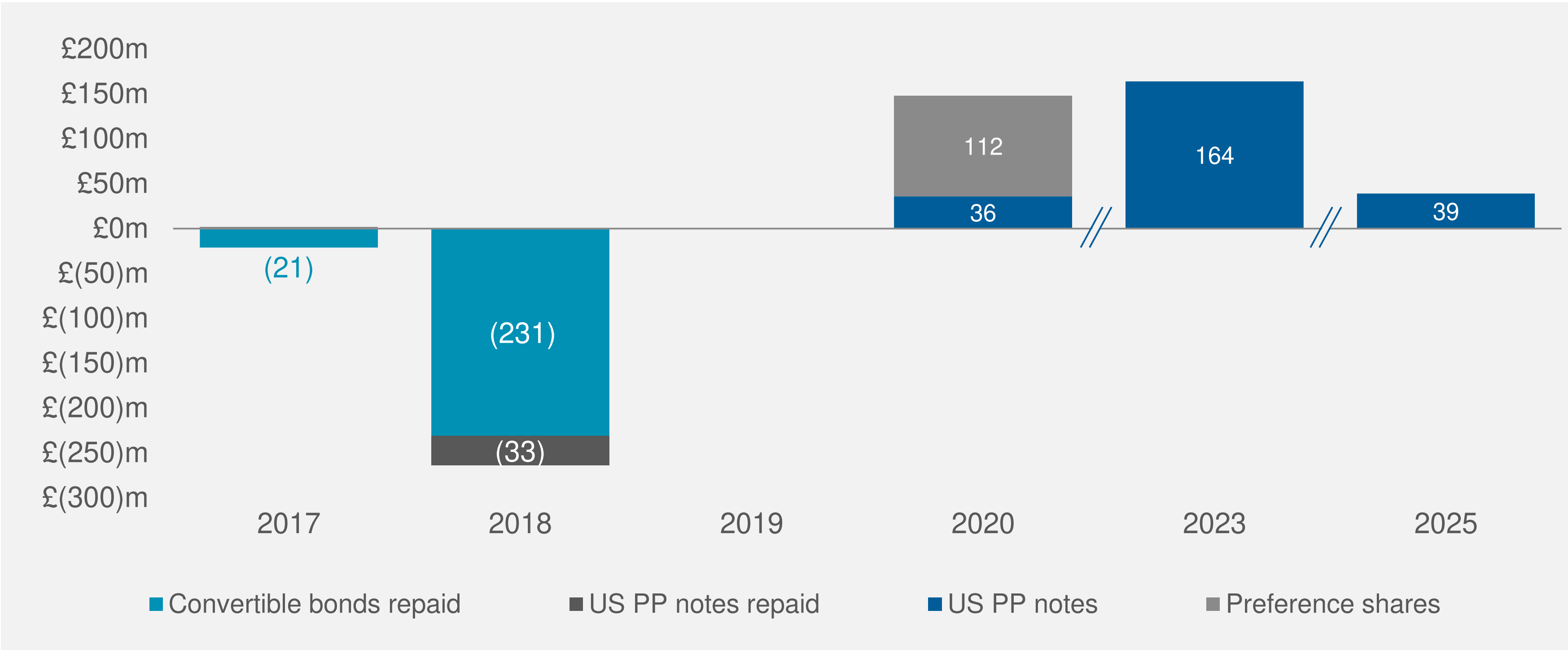
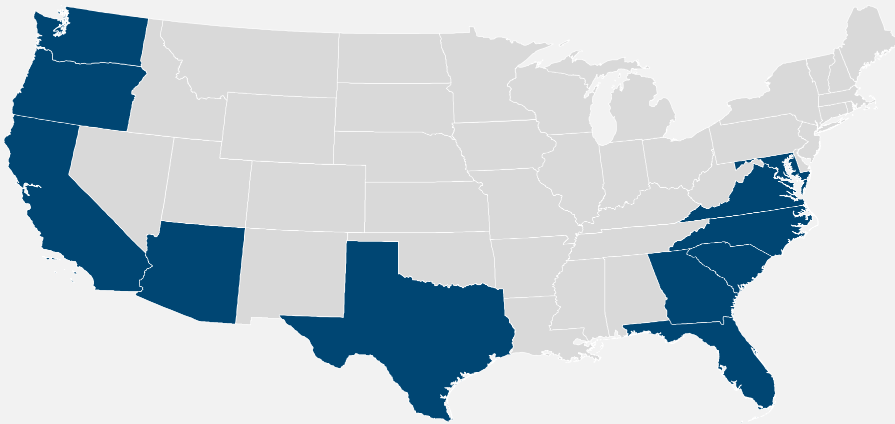
Borrowing repayment profile



The Group has committed revolving credit facilities of £400 million extending through to 2020
At 31 December 2018 all of these facilities were undrawn

US Construction

Our Buildings presence



Our capabilities

Buildings

Commercial
Education
Hospitality
Residential
Healthcare

Civils

Roads
Rail
Water

Our markets
Annual opportunity

Buildings* **$188bn**

Civils **$75bn**

Source: Dodge
** in states in which Balfour Beatty operates*

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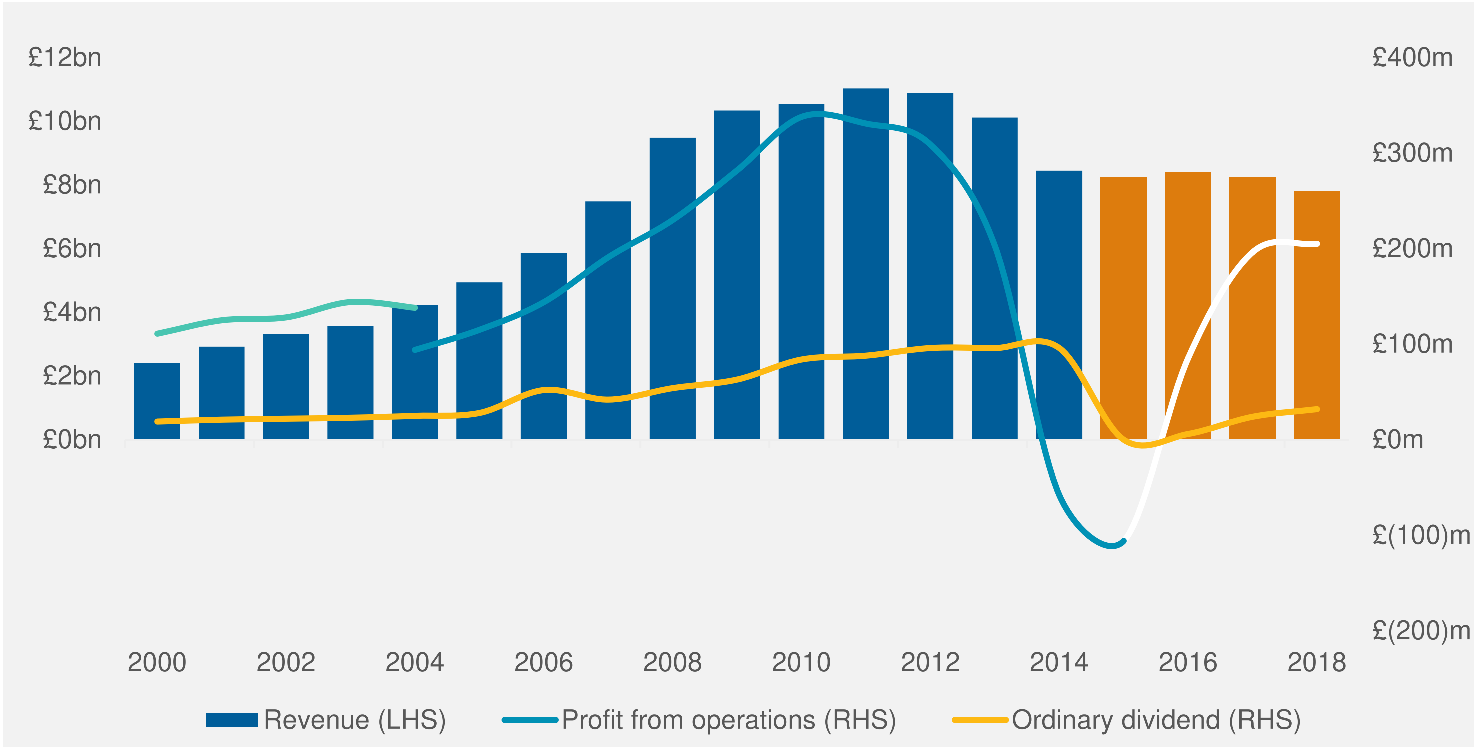
Financial history

450%
Increase in revenue

45
Acquisitions

£94m
Average ordinary dividend (2011-2014)

£16m
Average ordinary dividend (2015-2018)



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