



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%

Managed growth
Order book up 5% at £13.2bn



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

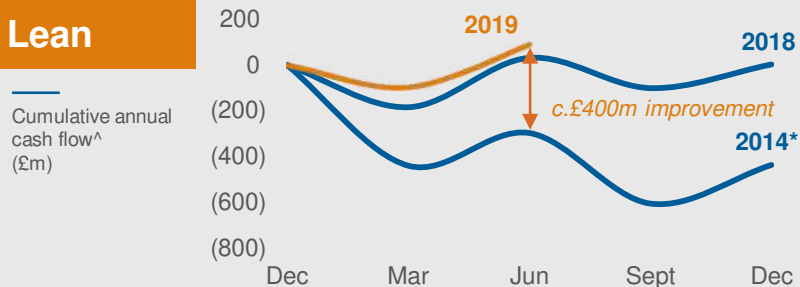
Long term value creation
Interim dividend increased 31%;
substantially de-risked portfolio

Increased profitability backed by strong cash performance



Delivering Build to Last

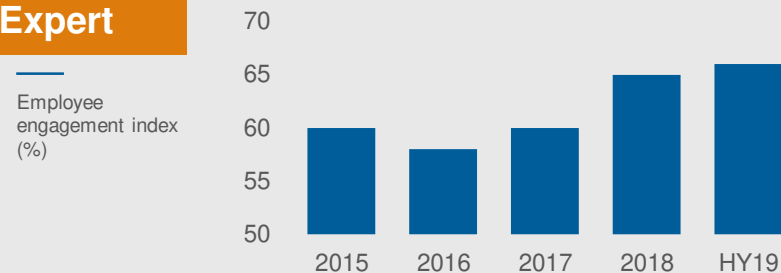
Lean



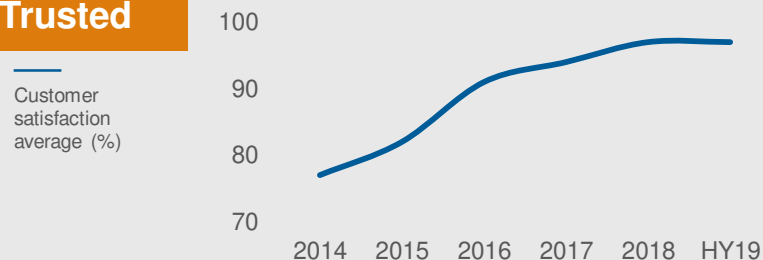
[^] includes other disposals

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

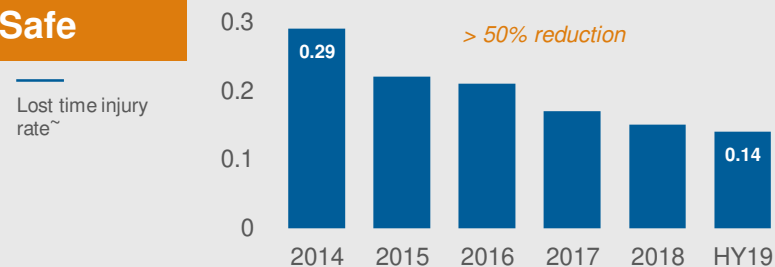
Expert



Trusted



Safe

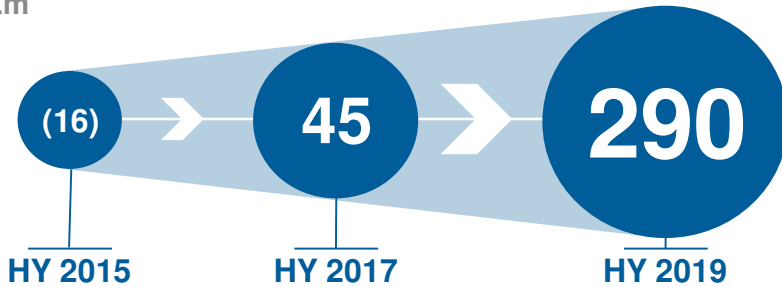


[~] excluding international joint ventures

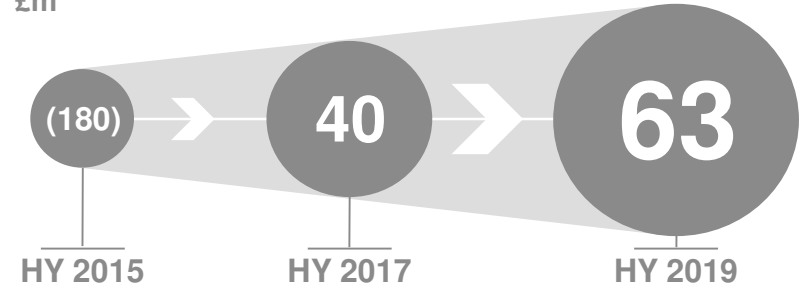
Delivering on all Build to Last goals

Wider benefits of Build to Last

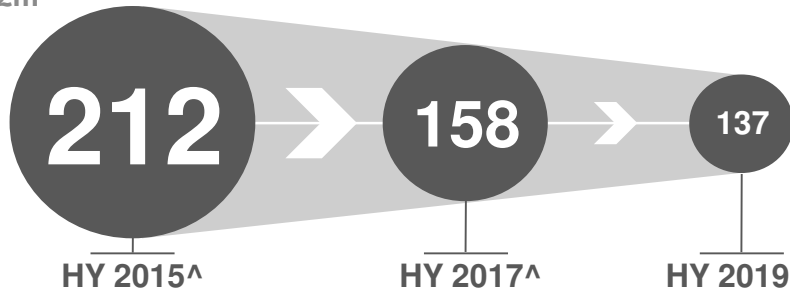
Average net cash/(debt)
£m



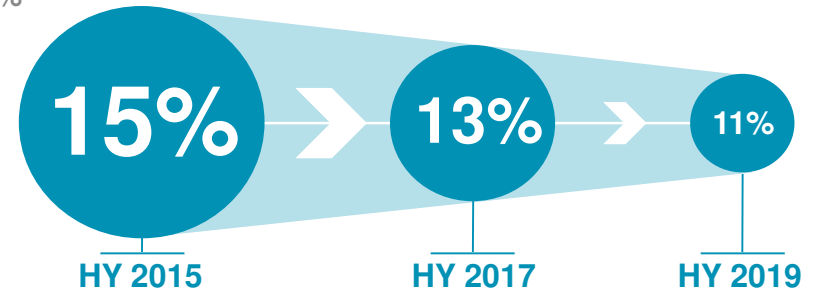
Earnings-based businesses profit/(loss) from operations*
£m



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

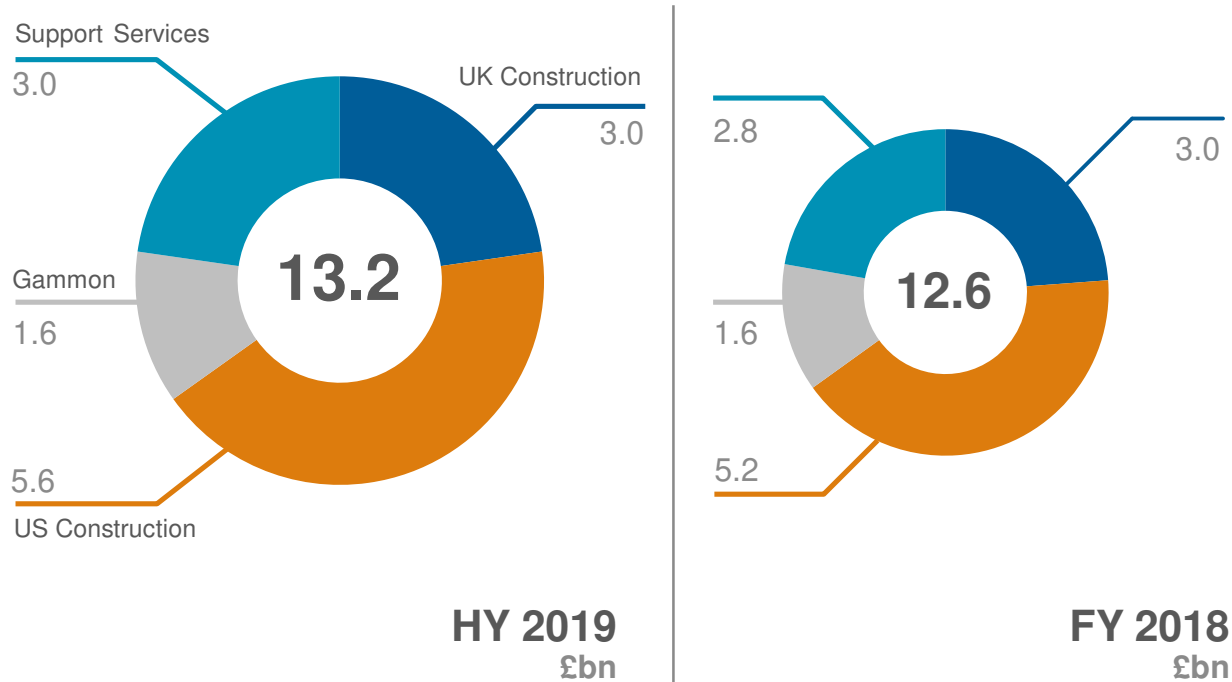
Underlying profit from operations

£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

£m	HY 2019*			HY 2018*		
	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

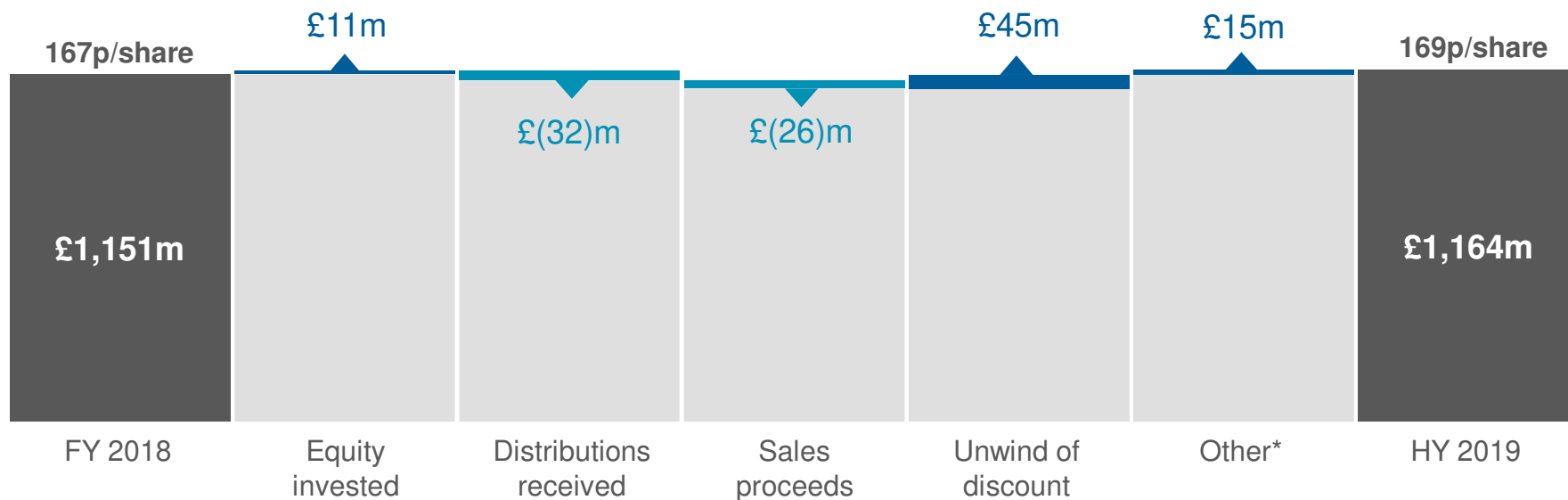
£m	HY 2019	HY 2018
Pre-disposals operating profit*	9	11
Profit on disposals*	16	22
Investments profit*	25	33
Subordinated debt interest receivable	13	13
Infrastructure concessions' net interest	(3)	(3)
Investments pre-tax profit*	35	43

* 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

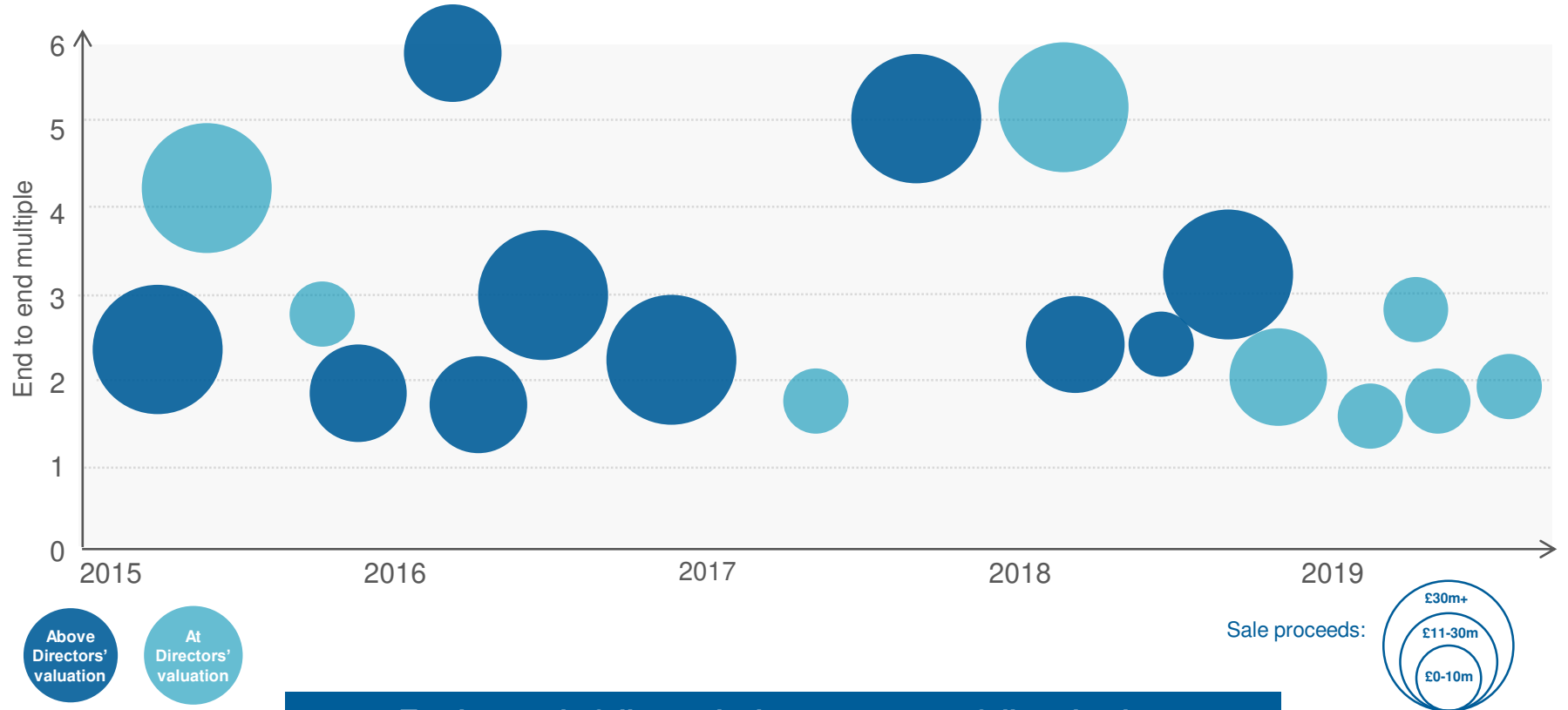
Directors' valuation of Investments portfolio



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

Directors' valuation remains stable at £1.2bn

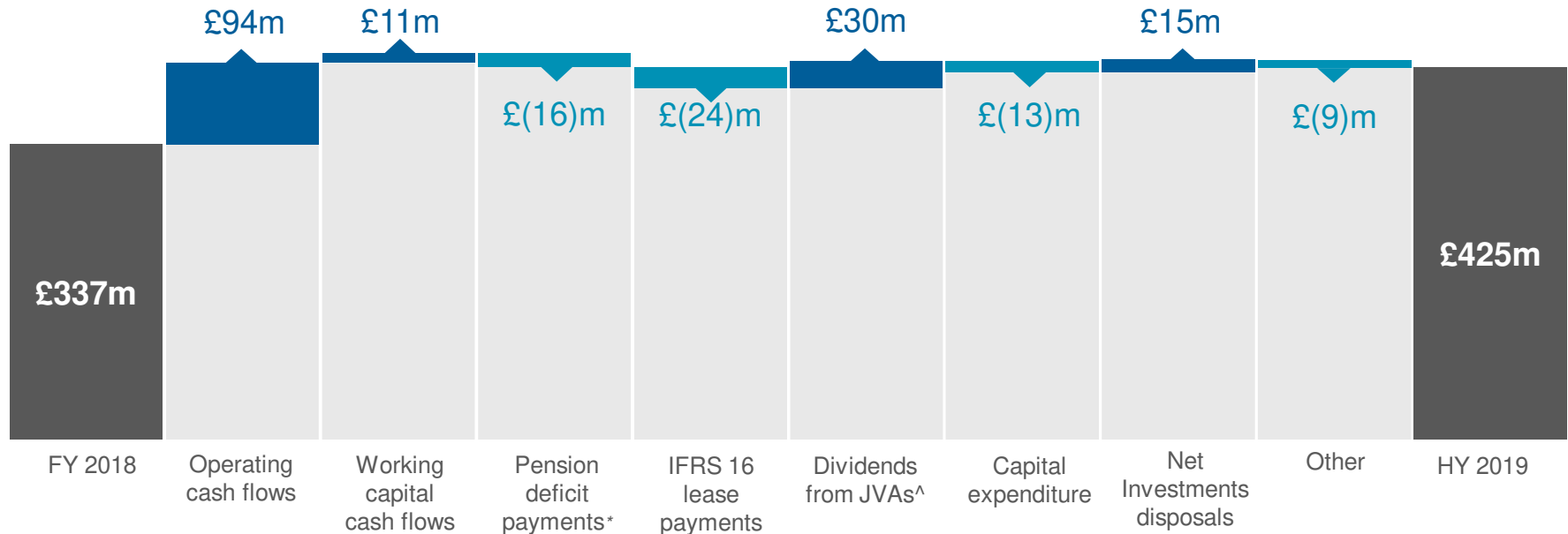
Realising value from the Investments portfolio



Track record of disposals demonstrate portfolio valuation

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



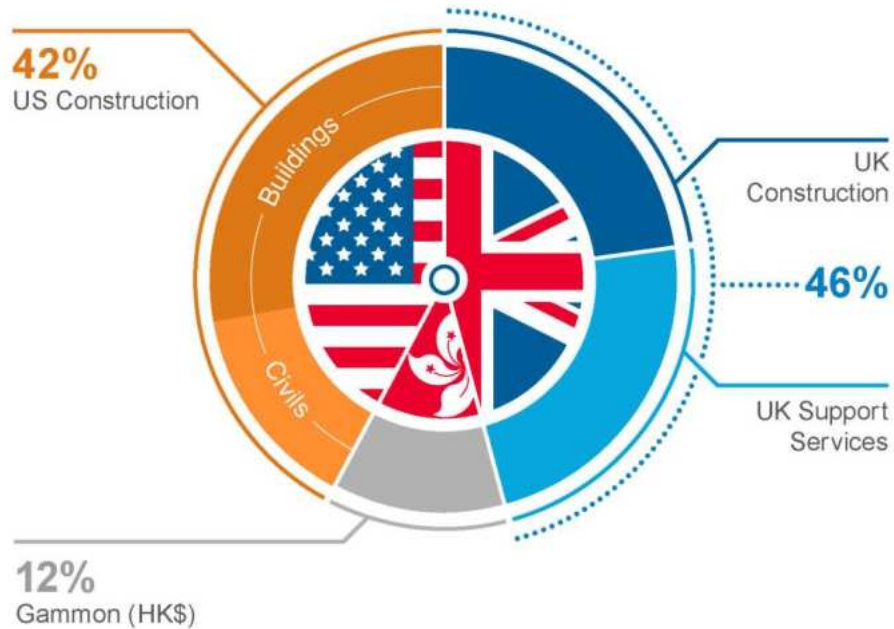
Platform for profitable managed growth



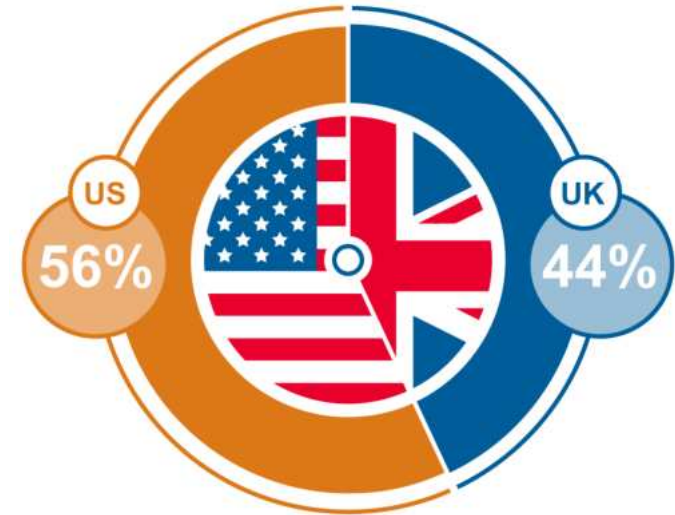
Creating long term value

Geographically and operationally diversified Group

£13.2bn Order book at HY 2019



£1.2bn* Investments portfolio at HY 2019

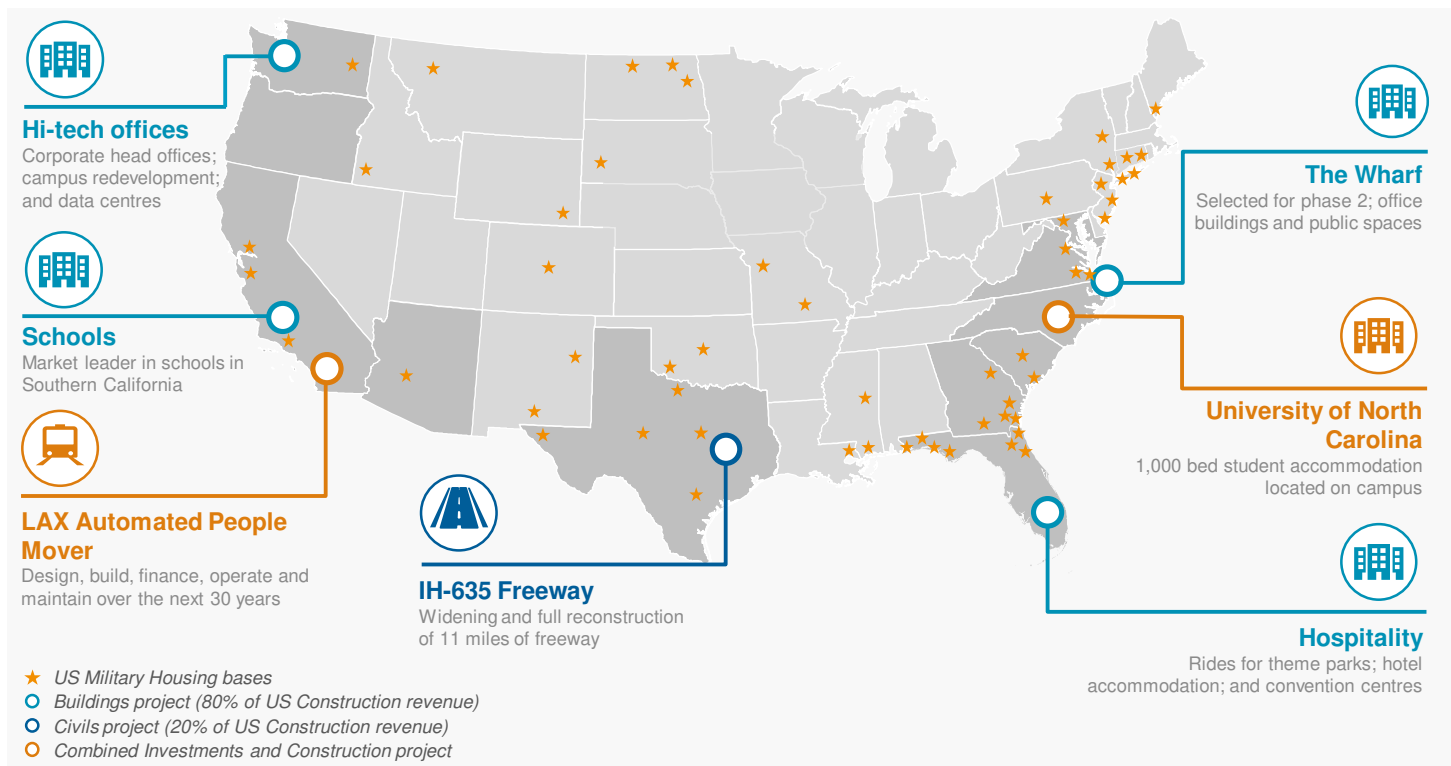


* Directors' valuation

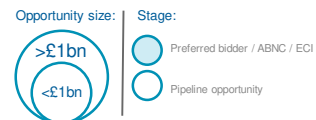
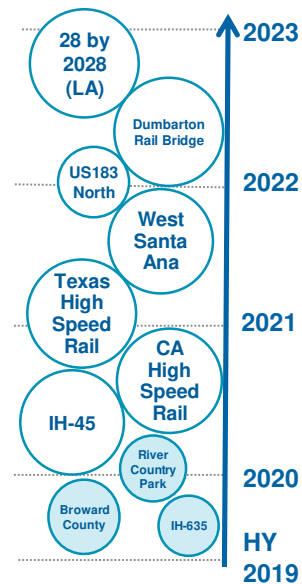
Over half of business outside the UK

US operations:

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



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

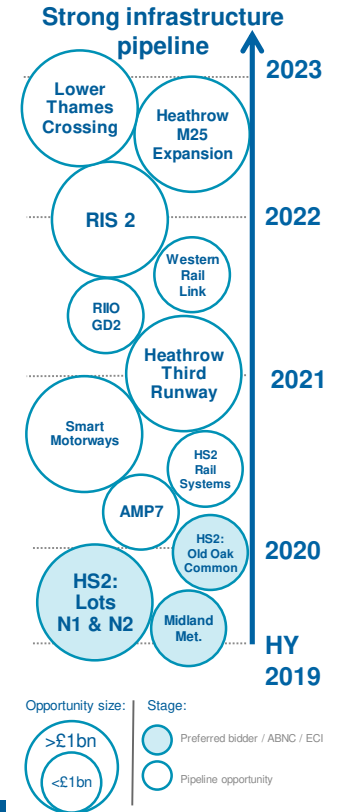
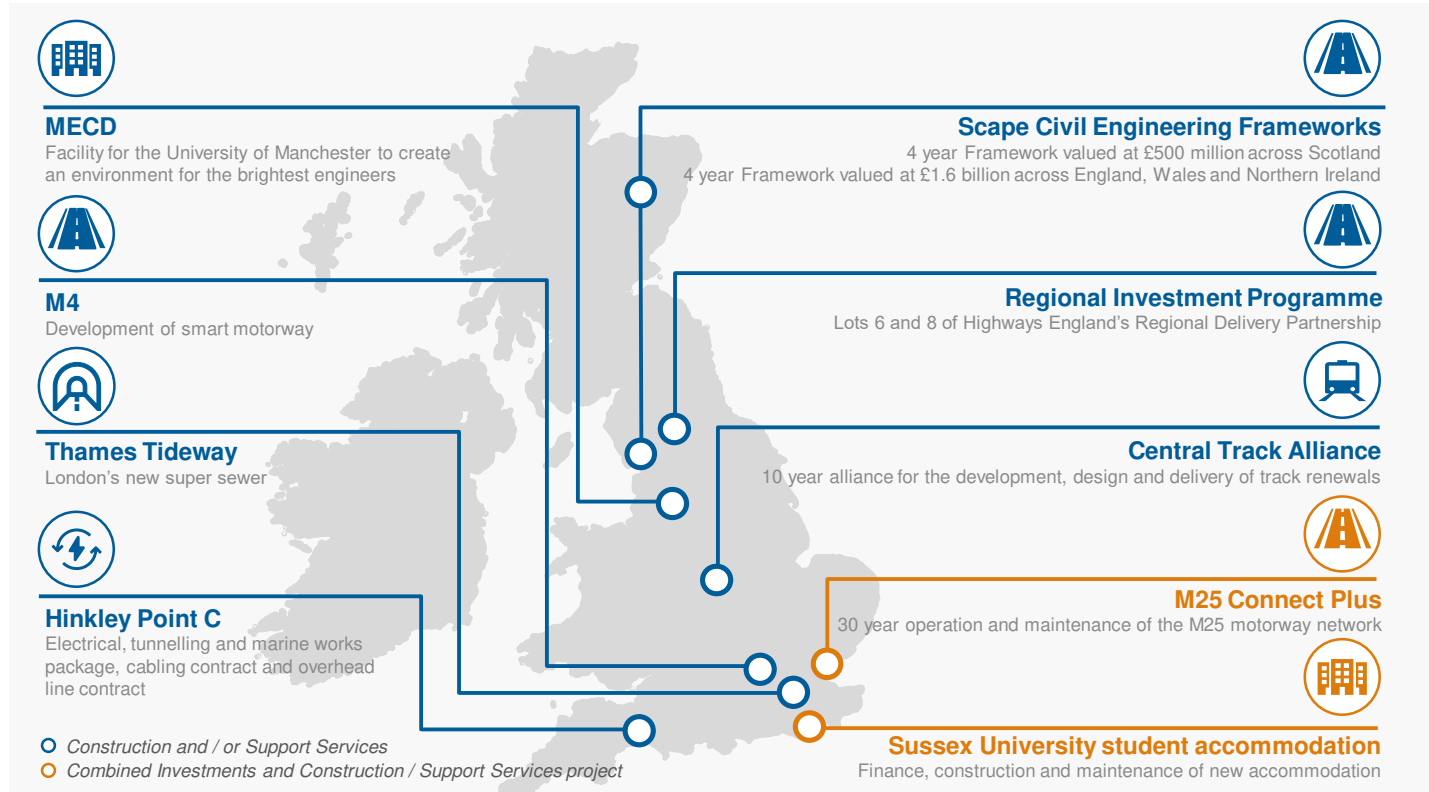


Fort Bliss US Army base, Texas

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

UK operations:

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

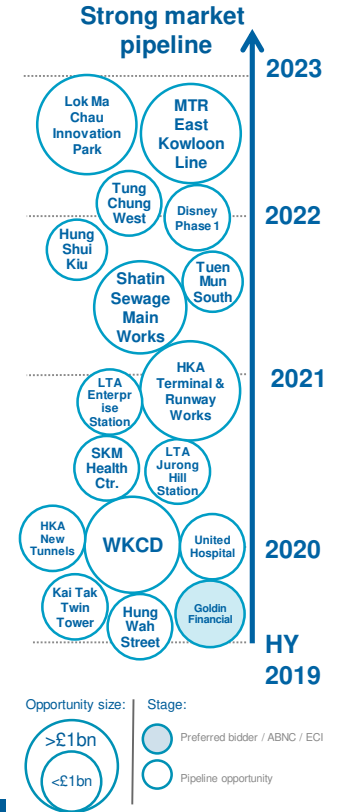
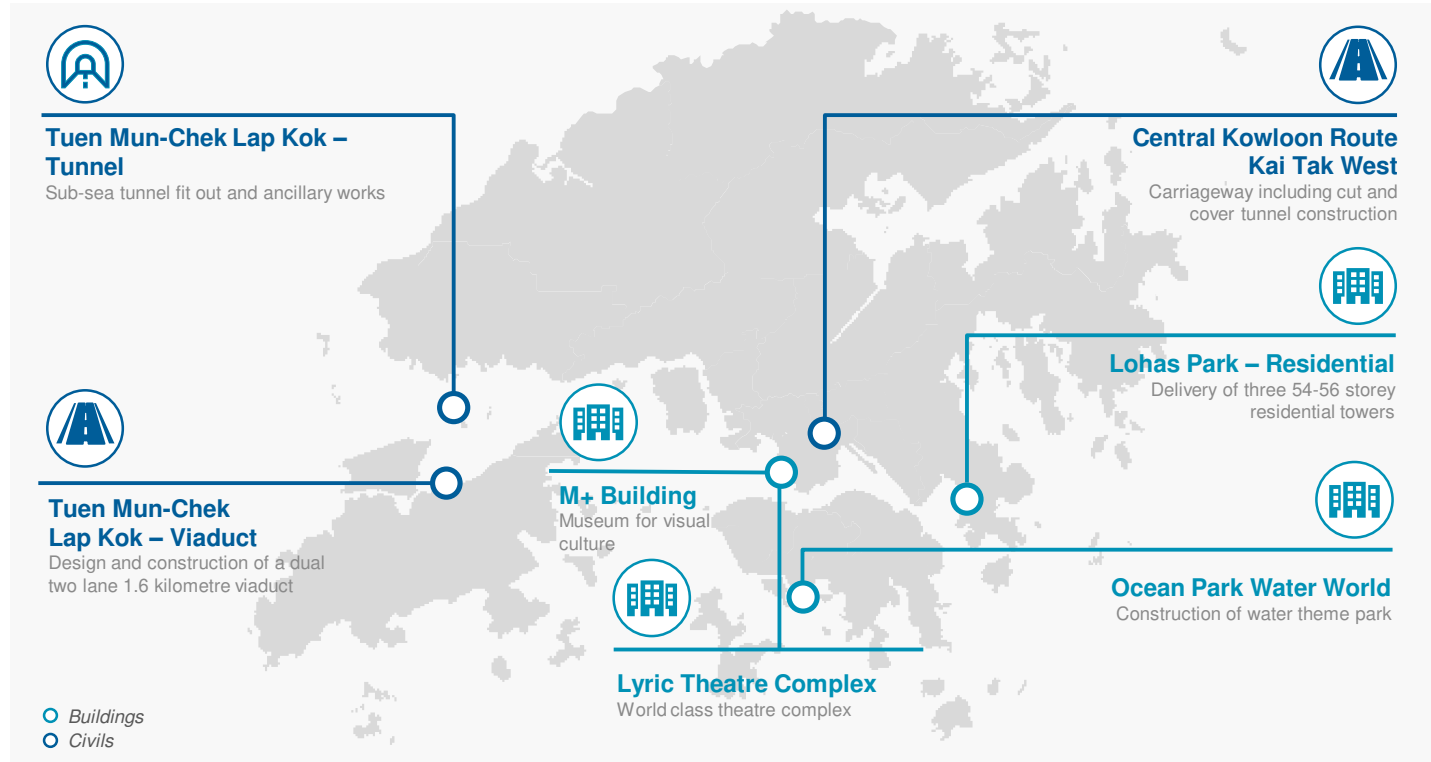


Well positioned across strong infrastructure market

[^] Annual revenue
[~] Directors' valuation at HY 2019

Hong Kong operations:

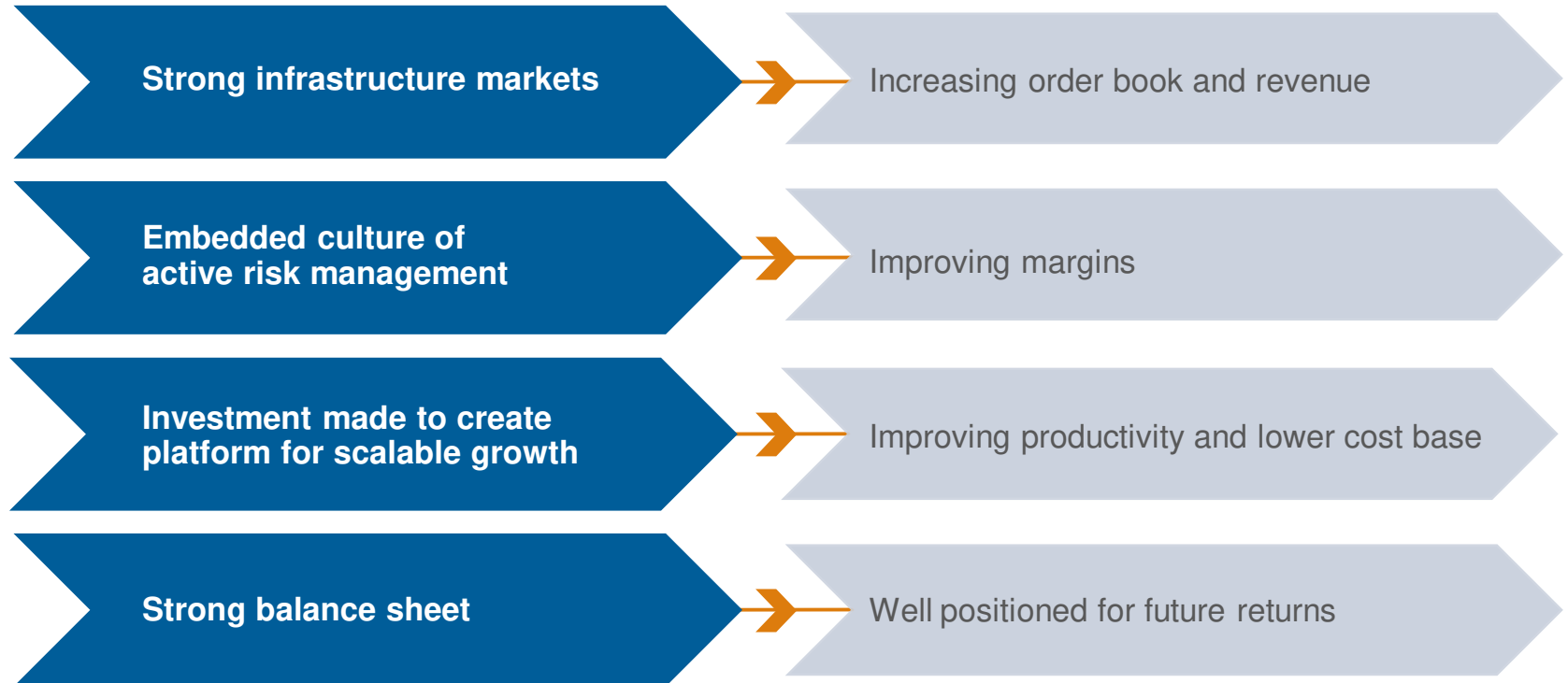
Gammon revenue c.£1bn[^]; 50:50 joint venture with Jardine Matheson



Well positioned to capitalise on pipeline of opportunities

[^] Annual revenue (Balfour Beatty share)

Profitable managed growth and cash generation



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 | June 2019

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 shallow productivity gap. Within this, apprenticeships are central given 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 5,000-6,000 by 2022¹.
- 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 activity².
- 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 workforce³. 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.

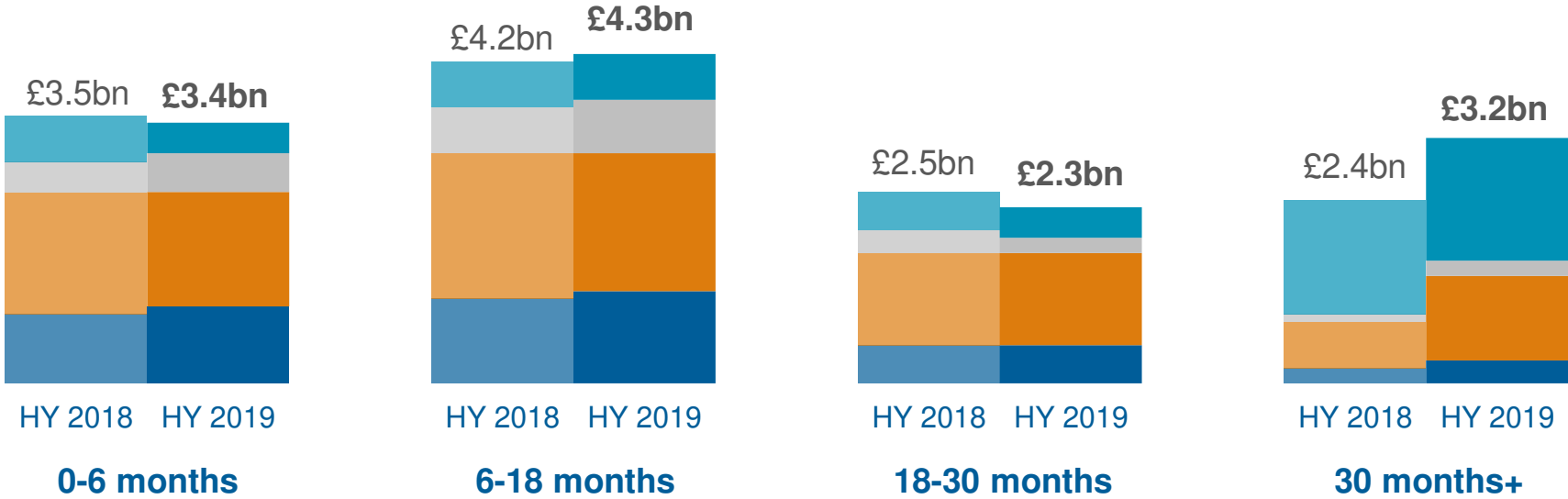
Our skills asks

1. For 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 sectors. That immigration system must be flexible enough to allow the industry to access the skilled workers it needs to build these highly 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

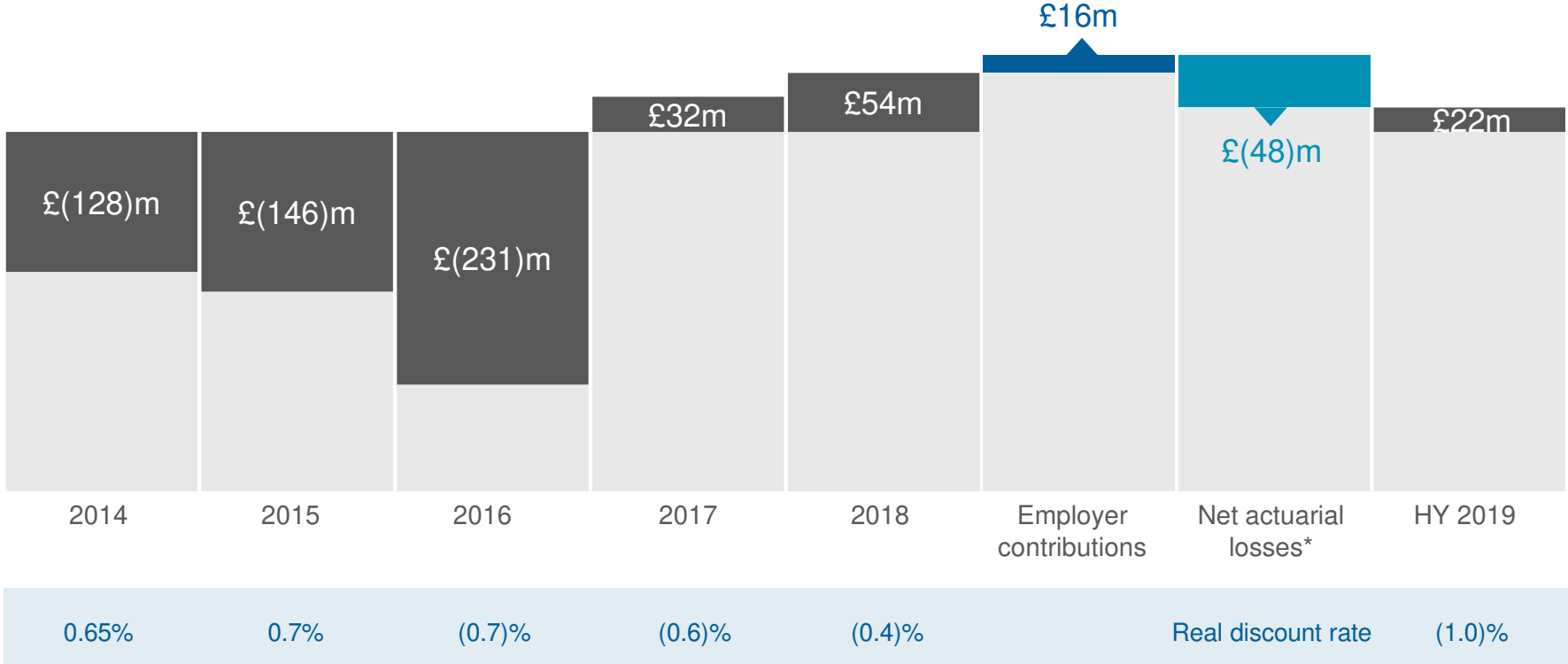
Total at HY 2019 £13.2bn

Total at HY 2018 £12.6bn



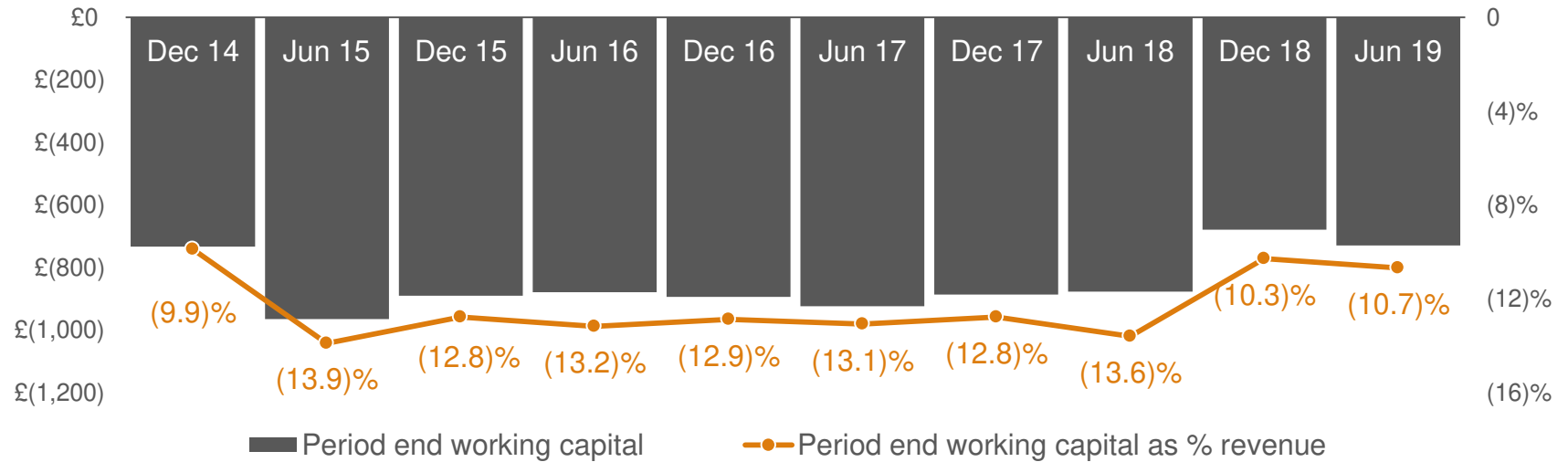
■ Construction Services - UK ■ Construction Services - US ■ Construction Services - Gammon ■ Support Services

Pensions – balance sheet movement



* including £1m of other movements

Working capital – Group

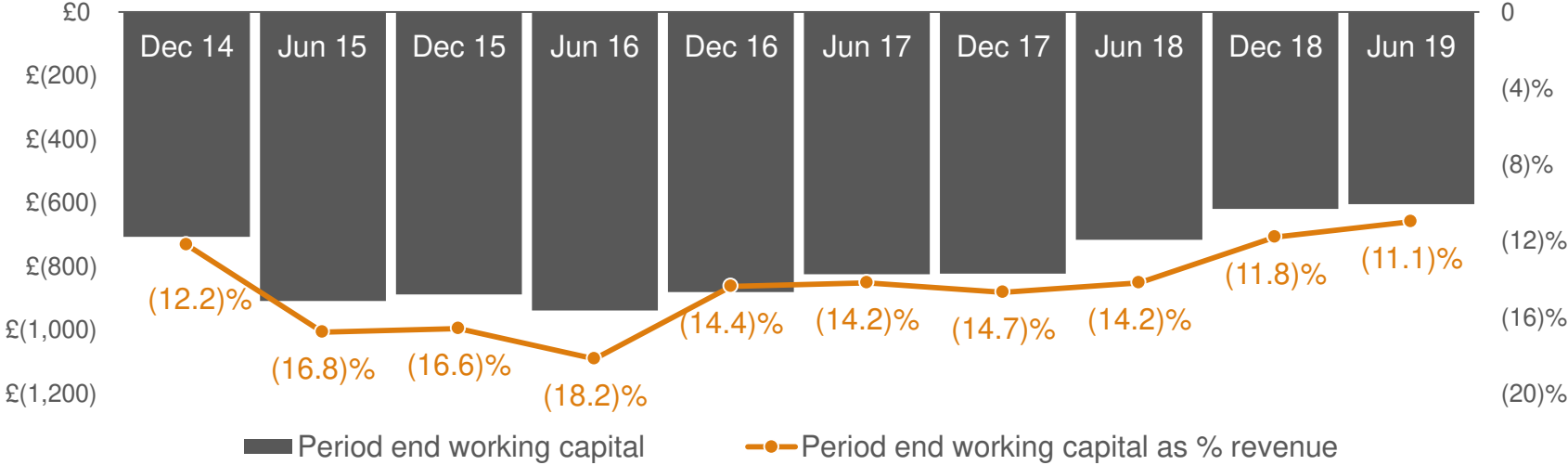


<i>Debtor days</i> ¹	29	28	27	30	34	37	28	37	33	34
<i>Creditor days</i> ¹	46	53	45	52	51	53	46	55	44	49

from continuing operations including non-underlying items

¹ Debtor days include Current trade receivables. Creditor days include Current trade and other payables, excluding accruals

Working capital – Construction Services



from continuing operations including non-underlying items

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 ^o	(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

o 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

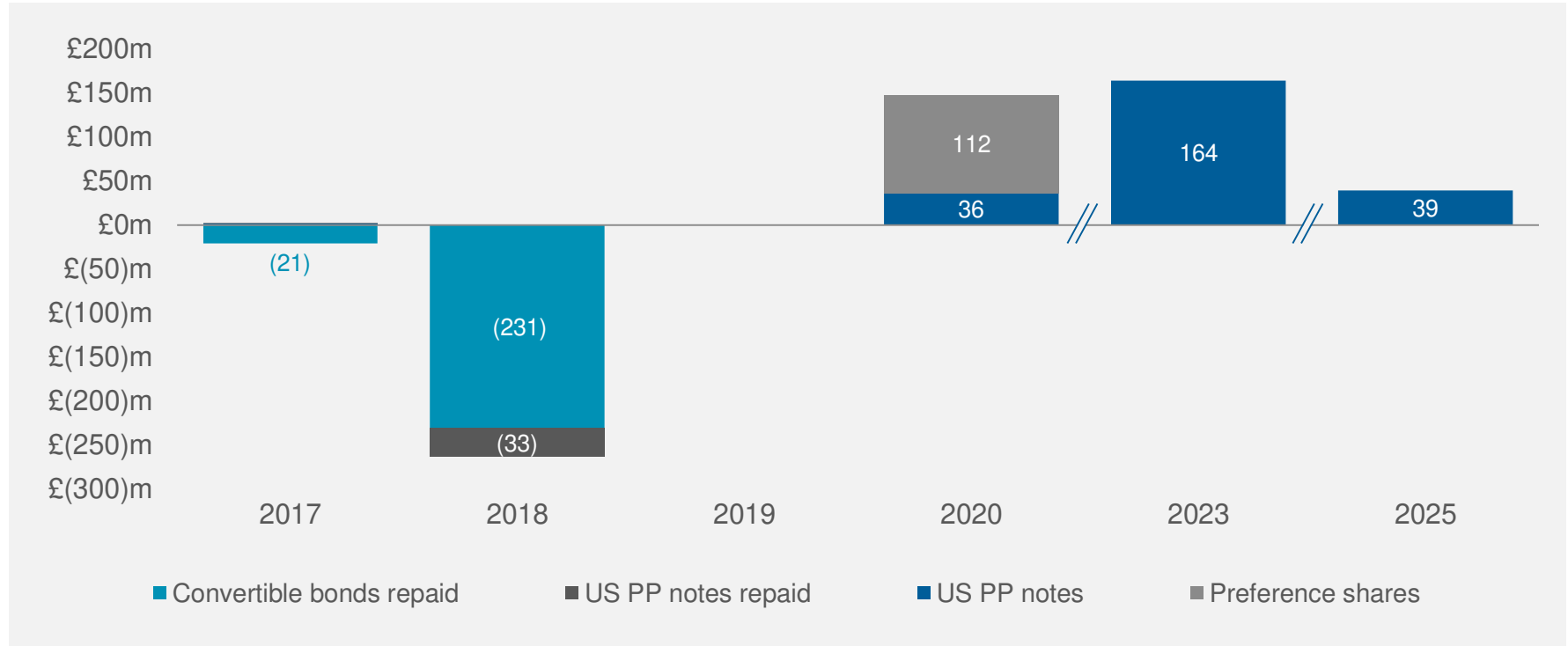
Net interest cost

£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

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

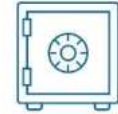
Managed order book on more favourable commercial terms



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)

