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# 2021 full year results presentation

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10 March 2022

*Image: Hinkley Point C, Somerset, UK*

**Balfour Beatty**

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**Leo Quinn**

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Group Chief Executive

*Image: Eleclink 1GW electricity interconnector, Channel Tunnel*



# Building momentum

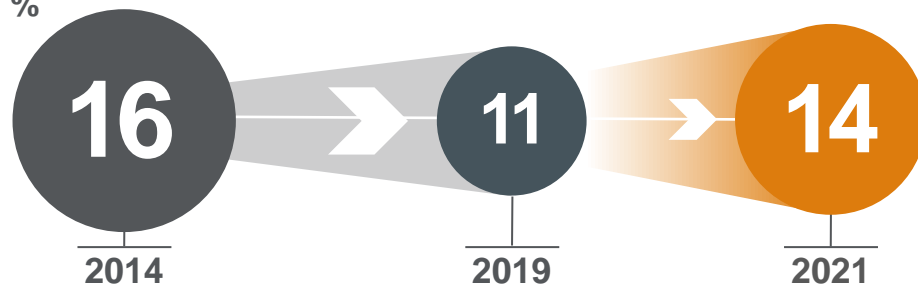
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- ▶ 2021 results ahead of expectations
- ▶ Balfour Beatty transformed into resilient, diversified Group
- ▶ Higher quality order book provides clear visibility
- ▶ Expert capability matched to favourable infrastructure markets
- ▶ Attractive Infrastructure Investments portfolio and opportunities
- ▶ £150 million share buyback in 2022

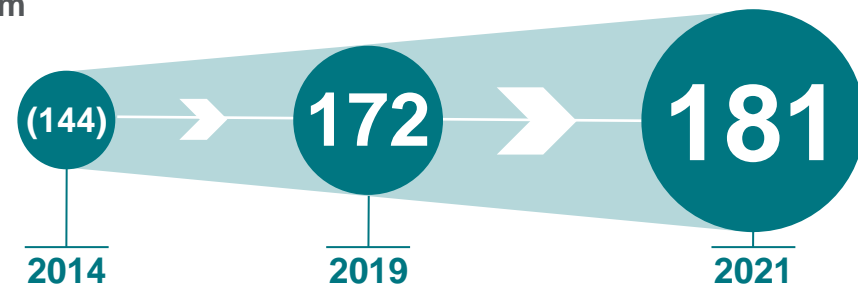
**Confidence in delivering profitable managed growth**

# Build to Last transformation

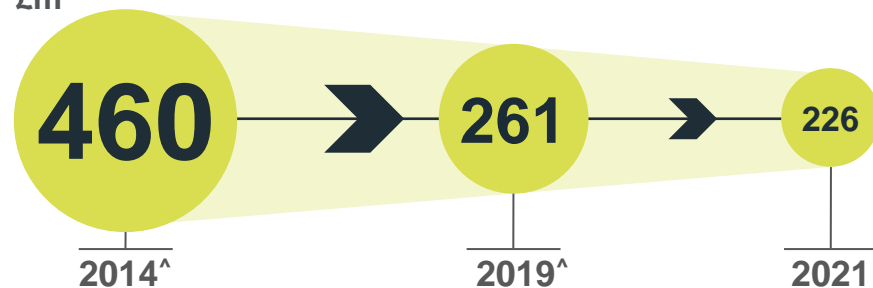
UK voluntary attrition: moving annual average %



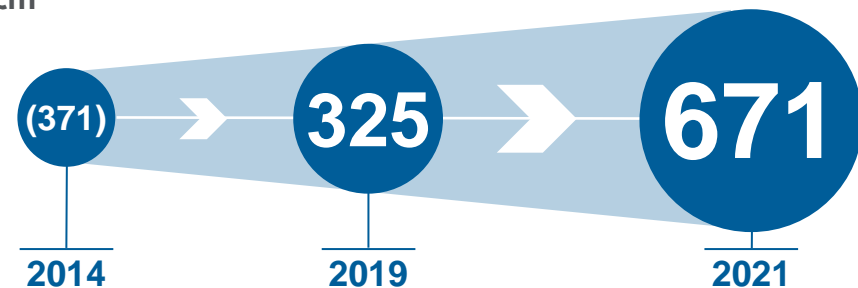
Earnings-based businesses profit/(loss) from operations\* £m



Other net operating expenses\* £m



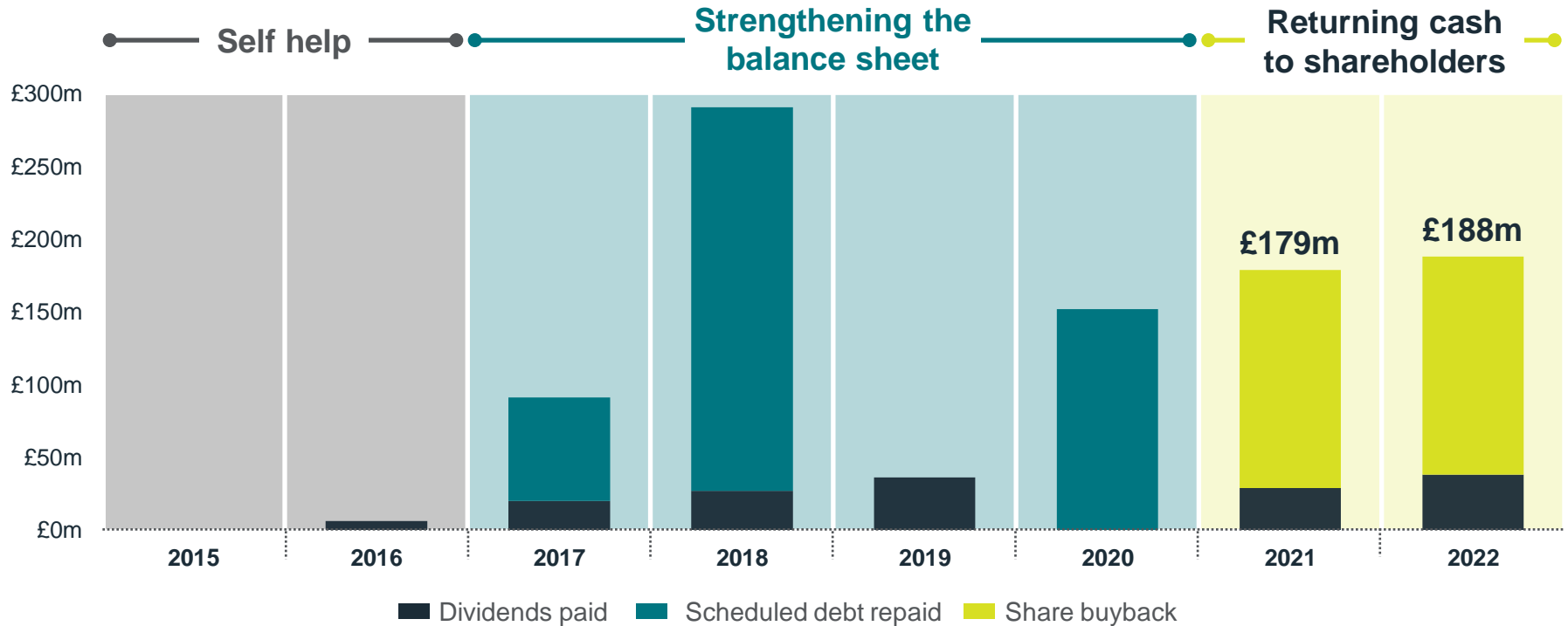
Average net cash/(debt) £m



\* from continuing operations, before non-underlying items | <sup>^</sup> FY 2014 and FY 2019 other net operating expenses are calculated on a Constant Exchange Rate (CER) basis

**Operational platform for sustainable future performance**

# Capital allocation pivot under Build to Last



**Significant returns for shareholders now and in the future**

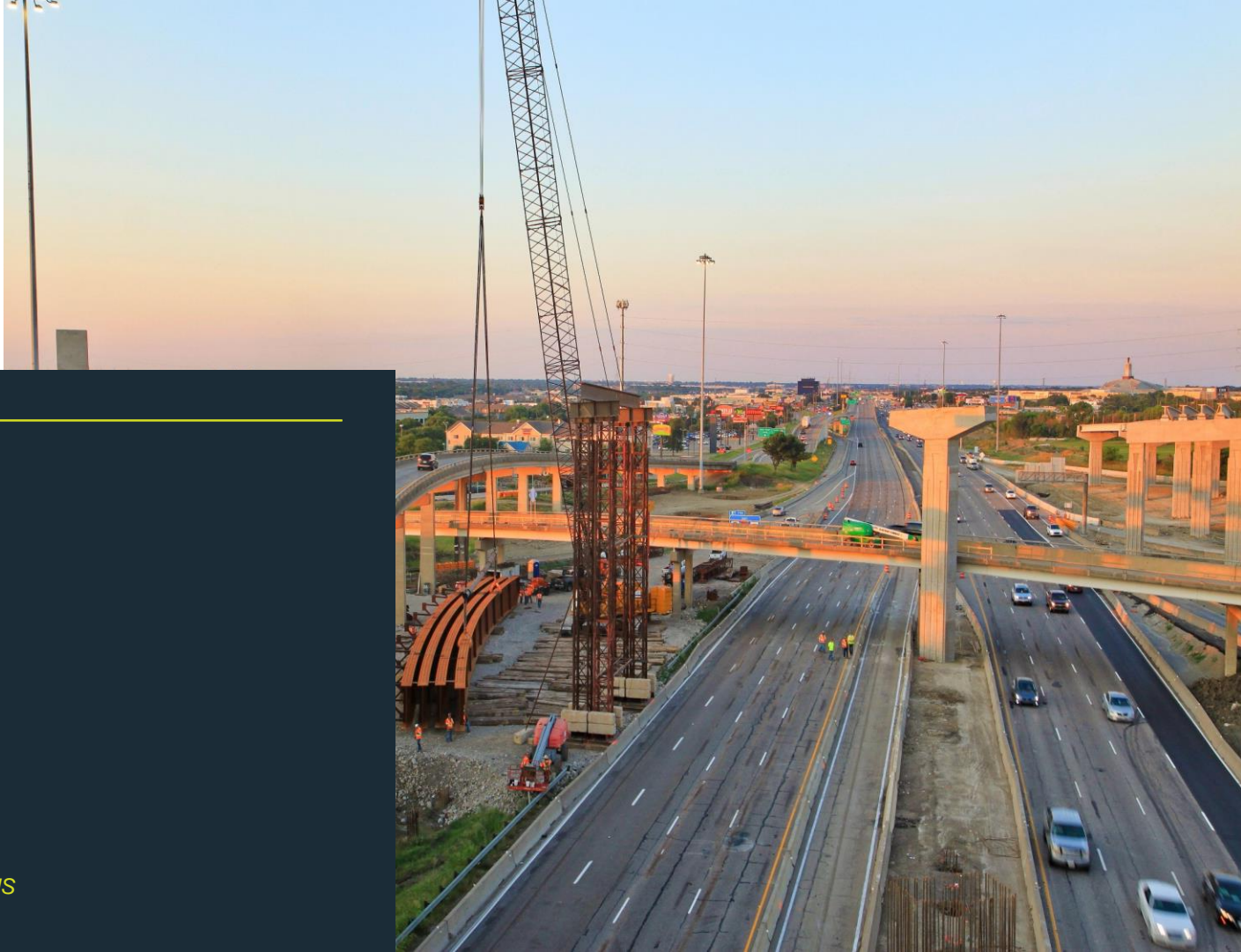
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# Phil Harrison

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Chief Financial Officer

*Image: Interstate 635 East, Texas, US*



# Headline numbers

£m (unless otherwise stated)

	2021	2020
Group revenue*	8,280	8,587
Profit from earnings-based businesses*	181	75
Profit from operations*	197	51
Profit for the year*	194	25
Basic earnings per share*	29.7p	3.7p
Dividends per share	9.0p	1.5p

	2021	2020
Order book	£16.1bn	£16.4bn
Directors' valuation of Investments portfolio	£1.1bn	£1.1bn
Period end net cash <sup>‡</sup>	790	581
Average net cash <sup>‡</sup>	671	527

\* before non-underlying items

‡ excluding Infrastructure Investments (non-recourse) net borrowings

**Financial results ahead of expectations**

# Construction Services

£m	2021*		2020*	
	Revenue	PFO	Revenue	PFO
UK	2,593	(2)	2,190	(26)
US	3,344	51	3,789	26
Gammon	809	30	985	29
<b>Total</b>	<b>6,746</b>	<b>79</b>	<b>6,964</b>	<b>29</b>

\* before non-underlying items

- US Construction and Gammon recorded PFO in line with pre-pandemic levels
- UK Construction impacted by performance issues at three private sector property projects in central London
  - > One complete, two finish in 2022
- UK Construction returned to profit in second half with £21m at 1.6% PFO margin

**UK Construction returned to profit in second half of year**



# Support Services

£m	2021	2020
Revenue		
Utilities	469	565
Transportation	597	502
<b>Total</b>	<b>1,066</b>	1,067
<b>Profit from operations*</b>	<b>102</b>	46

\* before non-underlying items

- Profitable recurring revenues underpinned by long-term contracts
- Outperformance is a result of:
  - > improved portfolio performance
  - > exit from gas and water sector
  - > end of contract gains
- Upgraded PFO margin target from 3-5% to 6-8%; 2022 revenue c.£900m

**Significant outperformance; upgraded margin target**

# Infrastructure Investments

£m	2021	2020
Pre-disposals operating profit*	14	8
Gain on disposals	35	-
<b>Investments profit*</b>	<b>49</b>	<b>8</b>
Sub-ordinated debt interest receivable <sup>^</sup>	18	15
Infrastructure concessions' net interest	(6)	(3)
<b>Investments pre-tax profit*</b>	<b>61</b>	<b>20</b>

\* before non-underlying items

<sup>^</sup> includes £14m impairments relating to subordinated debt receivable from joint ventures and associates (2020: £10m) and £9m fair value gain on investment asset (2020: £nil)

- Re-commenced disposals from portfolio:
  - > bundle of UK PPP assets for £48m
  - > Canadian hospitals for £20m
  - > two US multifamily housing projects for £12m
- Four new assets:
  - > two student accommodation – one in UK and one in US
  - > two US multifamily housing

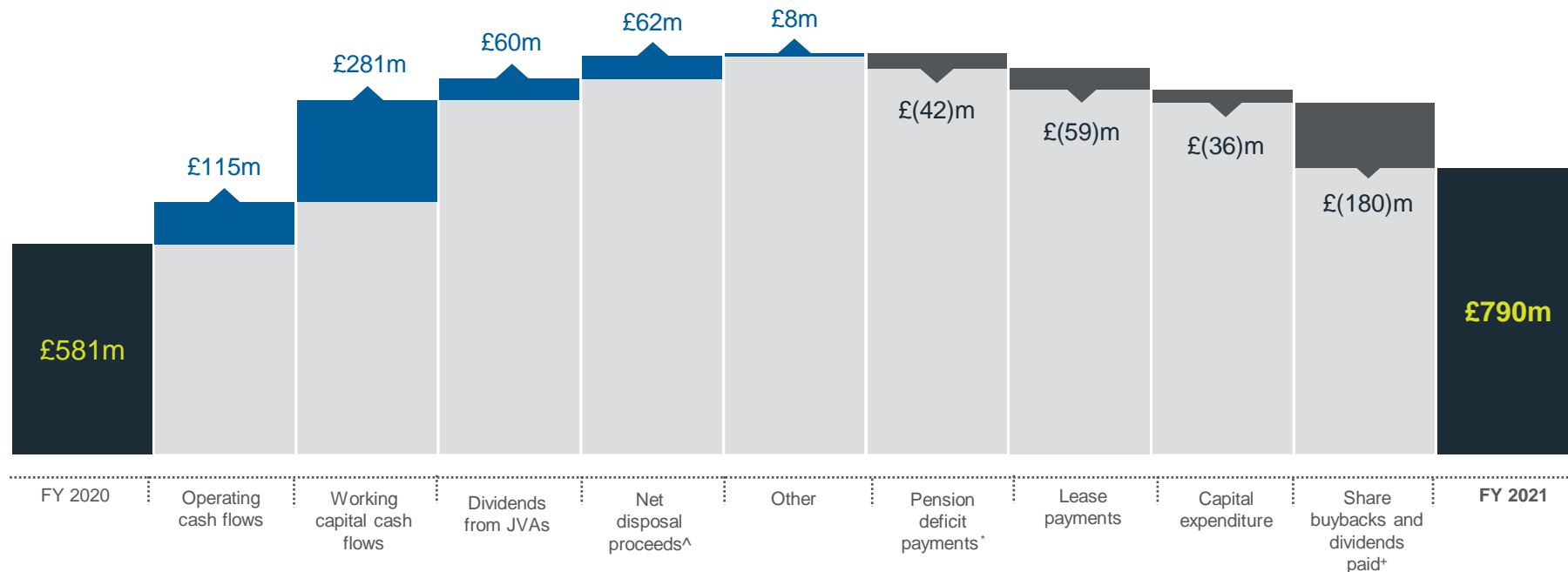
**All disposals above Directors' valuation**

# Non-underlying items

£m	2021	2020
<b>Impairment and amortisation</b>		
Amortisation of acquired intangibles	(5)	(6)
<b>Other</b>		
Grant income (repaid)/received in relation to COVID-19 UK Job Retention Scheme	(19)	19
Military housing settlement charge following resolution with US Department of Justice	(41)	-
Provision recognised for rectification works to be carried out on a development in London	(42)	-
Other non-underlying items	7	(1)
<b>Tax</b>		
Recognition/(derecognition) of deferred tax assets in the UK	11	(10)
Impact of tax rate change on deferred tax assets previously recognised through non-underlying	18	4
Tax on US Department of Justice settlement charge	4	-
Tax on rectification works provision	8	-
Tax on other items above	4	(1)
<b>Total non-underlying items</b>	<b>(55)</b>	<b>5</b>

**Net charge of £55 million after taxation**

# Cash flow



<sup>^</sup> includes £19m of equity invested

<sup>\*</sup> includes £3m of regular funding

<sup>+</sup> includes £1m of costs

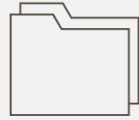
**Consistent, strong cash performance**

# Capital allocation framework



**Continued investment in organic growth opportunities**

Investments meet Group hurdle rates



**Active realisation of the Investments portfolio**

Disposals timed to optimise value



**Strong but efficient balance sheet**

Platform to make long-term decisions



**Sustainable ordinary dividend (target 40% payout ratio<sup>^</sup>)**

Increasing earnings to drive dividend growth



**Additional cash returns via share buybacks**

Broadly based on surplus cash from Investments disposals and operating cash flows

<sup>^</sup> underlying profit after tax excluding gain on disposals of Investments assets

**First year of multi-year framework complete**

# Shareholder returns

## Profitable managed growth

2021 PFO from earnings-based businesses 5% higher than 2019

2022 continued profit growth in line with Board expectations

2023 and beyond; continued profitable managed growth and sustainable cash generation

## Sustainable dividend

Target 40% ordinary dividend pay-out ratio<sup>^</sup>

2021 total dividend at 9.0 pence per share, equivalent to £57m

Sustainable dividend expected to grow with underlying profit

## Multi-year share buyback programme

£150m share buyback completed in 2021

Announced further £150m share buyback for 2022

Confidence in delivering significant future shareholder returns

<sup>^</sup> underlying profit after tax excluding gain on disposals of Investments assets

**£367 million of total shareholder returns announced since January 2021**

**Balfour Beatty**

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**Leo Quinn**

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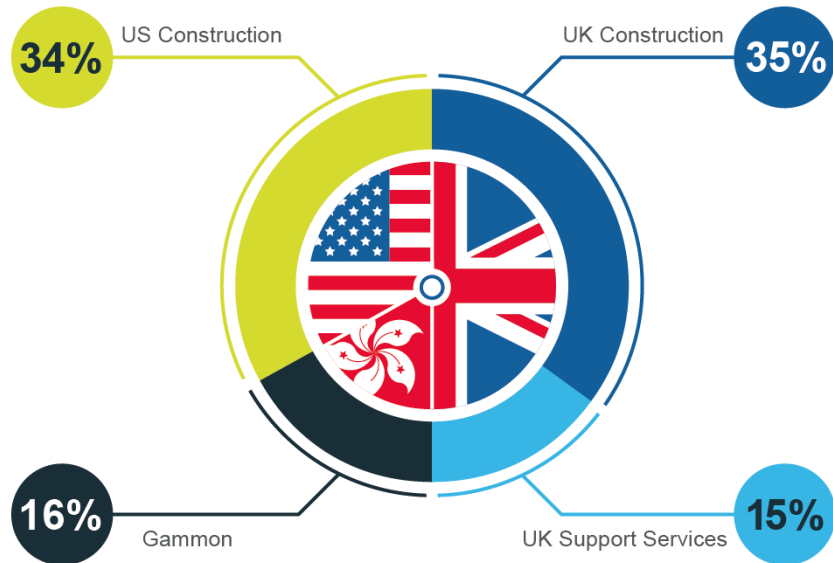
Group Chief Executive

*Image: HS2 Long Itchington Wood Tunnel, Warwickshire, UK*

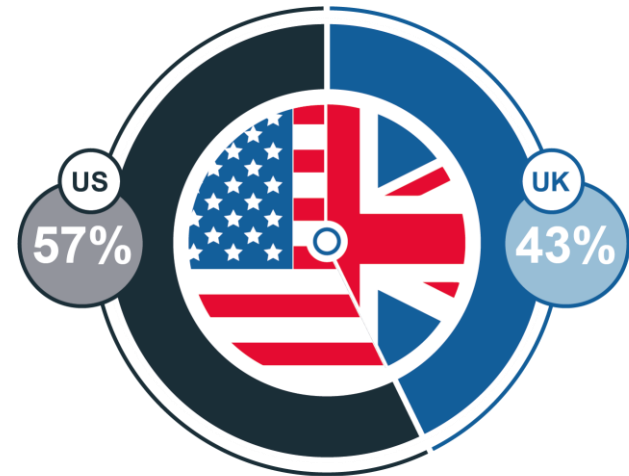


# Geographically and operationally diversified portfolio

## £16.1bn order book



## £1.1bn\* Investments portfolio



\* Directors' valuation

**Balfour Beatty transformed into resilient, diversified Group**



# Inflation

## Construction Services & Support Services



### Inflation management



- Contractual protection
- Early buyout to lock in costs
- Leveraging the Group's scale
- Responsible supply chain management

## Infrastructure Investments



### Inflation protection



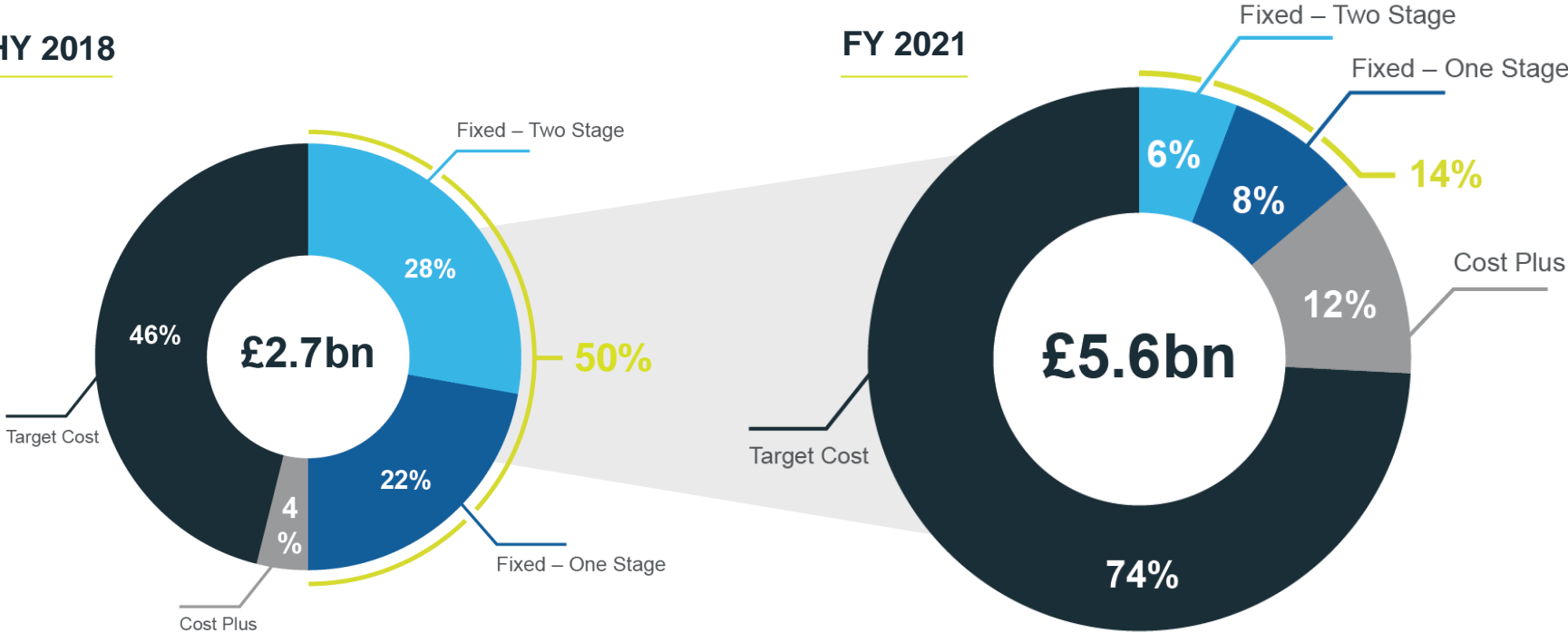
- In an inflationary market asset values increase
  - > UK portfolio positively correlated with inflation
  - > US portfolio positively correlated with inflation indirectly through the link to rental market

**Actively managing inflation risk while infrastructure assets increase with inflation**

# UK Construction order book evolution

HY 2018

FY 2021



**Driving more predictable outcomes**

# UK Construction

## Major Projects



HS2 Area North, Old Oak Common



Hinkley Point C

### Market drivers

- UK Government's £650bn National Infrastructure Strategy plus Net Zero Strategy
- Key growth markets: carbon capture; blue hydrogen; floating offshore wind; new build nuclear

## Highways



M4 Junctions 3 - 12

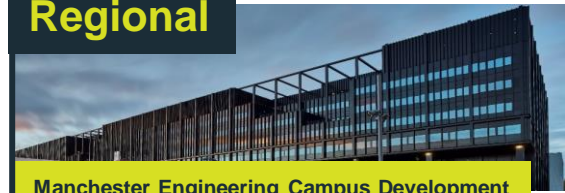


A63 Castle Street, Hull

### Market drivers

- Second Road Investment Strategy (RIS2: 2020-2025) at £24bn post Smart Motorway Alliance (RIS1: £15bn)
- Key growth markets: strategic network improvements; safety enhancements; associated infrastructure

## Regional



Manchester Engineering Campus Development



SCAPE Civils 2nd generation frameworks

### Market drivers

- Multiple UK-wide framework opportunities including £4bn SCAPE Civils 3rd generation frameworks
- Key growth markets: defence; education; nuclear; flood defences

Repositioned towards infrastructure projects

# Future UK infrastructure pipeline

## HS2



- c.£2bn over four rail track systems packages
- Phase 2a (West Midlands to Crewe) main civils work packages
- Phase 2b (Crewe to Manchester)

## Nuclear & Defence



- Sizewell C c.£20bn 3.2 GW nuclear power station
- Multi-billion upgrade and modernisation programme of nuclear and defence facilities, docks and associated infrastructure

## Decarbonisation



- Net Zero Teesside: Carbon capture, utilisation and storage
- Hydrogen to Humber: hydrogen production facility
- Balfour Beatty has agreement in place with Technip Energies in pursuit of these projects

## Lower Thames Crossing



- £6.3bn National Highways road crossing
- Longest UK road tunnel at 4.25km
- 23km of new roads

### End to end Group capability



Commercial & technical



Design & planning



Ground engineering



Civil & rail engineering



Mechanical & electrical



Power transmission & distribution

**Leveraging Group-wide capabilities**

# Support Services: transformed portfolio

## Power



£300m Hinkley Point C connection project



£85m Port Ann to Crossaig for SSEN

### Market drivers

- RIIO-T2 (2021-2026): £40bn including £10bn available for green energy projects
- £3bn for renewable energy connections
- £10bn National Grid East Coast programme

## Road maintenance



M25 30 year concession



Local authority reactive and capital works

### Market drivers

- Additional £2.7bn in funding for road patching, increasing local council budgets by c.50% over four years
- Significant number of local authority contracts due to market

## Rail maintenance



£220m London Underground track renewals



£1.5bn Central Rail Systems Alliance

### Market drivers

- £53bn Network Rail CP6 (2019-2024): including £10bn extra for maintenance and renewals
- Government Integrated Rail Plan: £96bn of investment in Midlands & the North

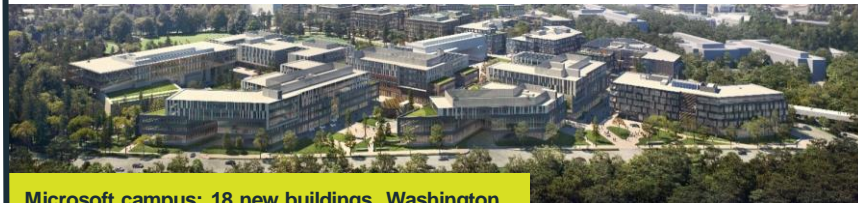
**Target PFO margin upgraded to 6-8%; strong medium term growth prospects**

# US Construction

## Buildings



Broward County Convention Centre, Florida



Microsoft campus: 18 new buildings, Washington

### Market drivers

- Post-pandemic rebound in tendering activity
- “Southern Smile” geographic focus
- Increased Federal spending in Mid-Atlantic and California
- Growth in P3 social infrastructure and transport opportunities

## Civils



Highways in Texas (IH-635), Carolinas & Georgia



Mass Transit Rail projects: Caltrain, California

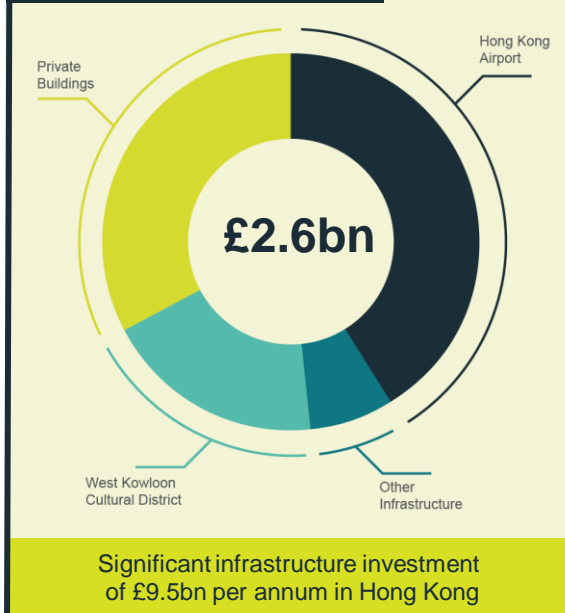
### Market drivers

- US\$1.2tn bipartisan Infrastructure Investment and Jobs Act, which includes US\$634bn of funding for road and rail
- US\$77bn 2020 Unified Transportation Program from TxDOT
- US\$200bn+ of multi-state transportation bonds

**Well positioned to capitalise on strong building and infrastructure pipelines**

# Gammon: 50:50 joint venture – new CEO

## Strong order book\*



## Portfolio highlights



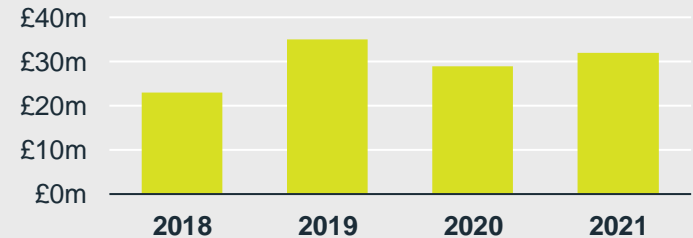
## Vertically integrated capability



### Main civils contract

- Plant
- Foundations
- Concrete
- Steel
- M&E
- Façade

## Consistent dividend\*

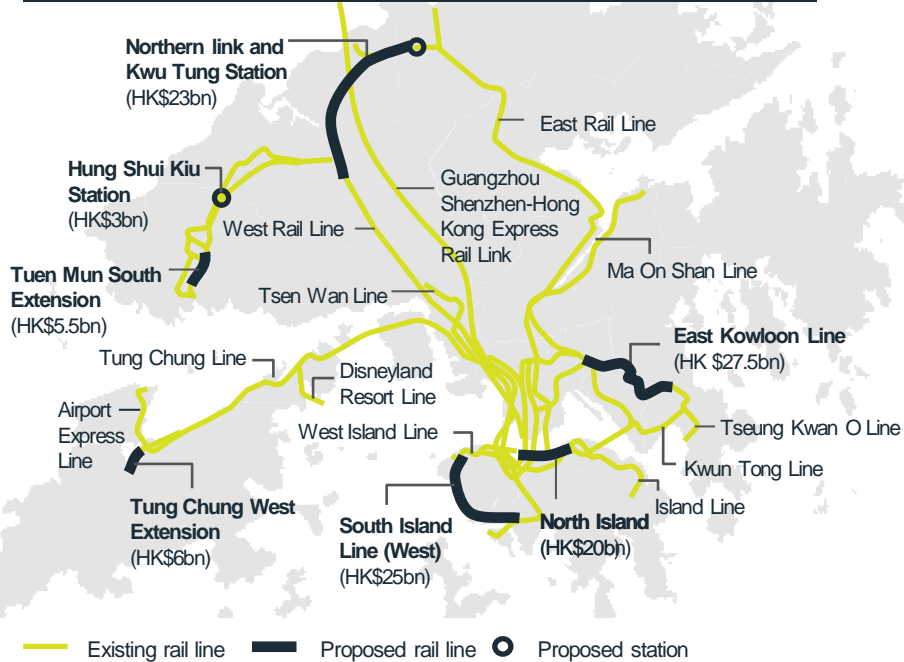


\* Balfour Beatty share

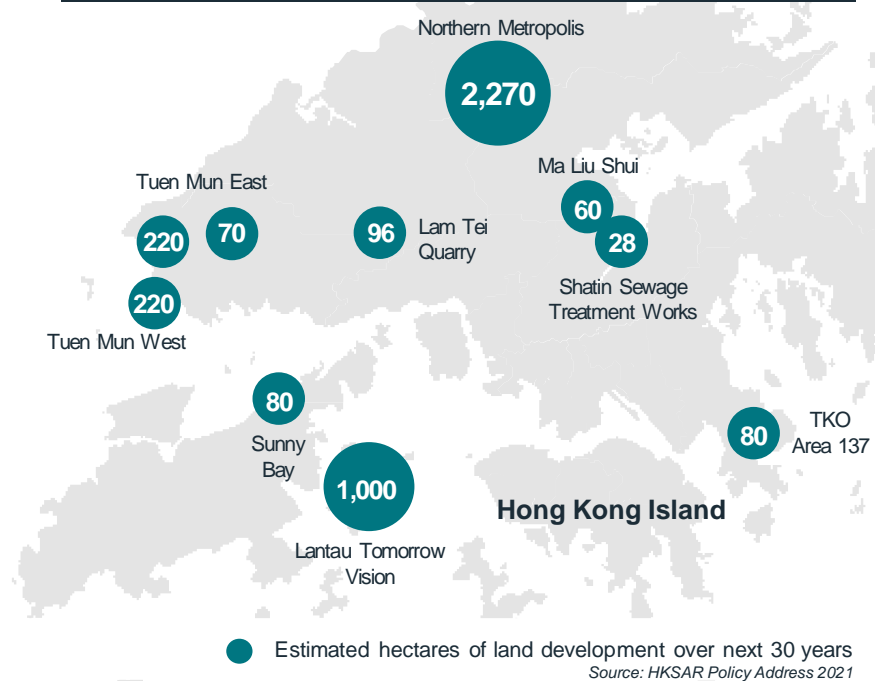
**Strong order book and returns; vertically integrated capability**

# Hong Kong pipeline

## Mass Transit Railway (MTR) network



## Proposed land development

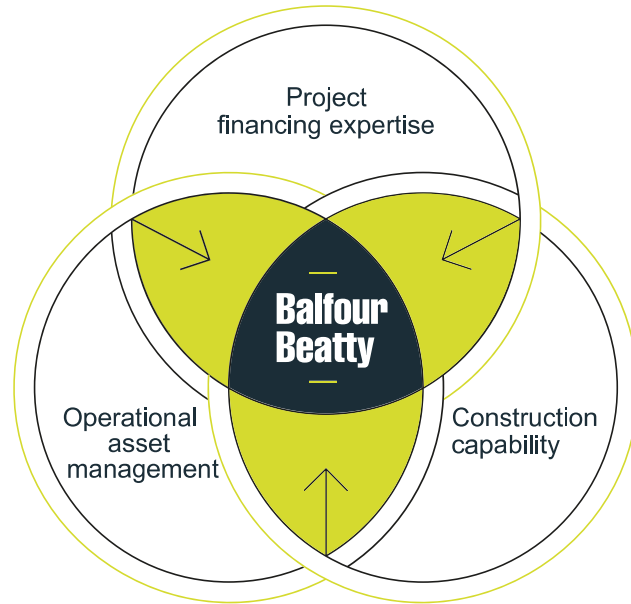


**Vibrant civil infrastructure and buildings market**



# Infrastructure Investments – new CEO

## Strong competitive advantage



## Growth markets



Student accommodation UK & US



P3 social and transport US

- High ROI for Group negative working capital
- Portfolio positively correlated with inflation
- Disposals underpin share buyback programme

**Uniquely positioned to capitalise on emerging opportunities**

# Building New Futures



## Environment



**2040 Ambitions**

Beyond Net Zero Carbon

**2030 Targets**

Achieve science-based carbon reduction target

### 2021 highlights

- Joined the United Nations 'Race to Zero' campaign
- Launched roadmap towards a zero carbon construction site at the Royal Botanic Garden Edinburgh, Scotland

## Materials



**2040 Ambitions**

Generate Zero Waste

**2030 Targets**

40% reduction in waste generated\*

### 2021 highlights

- Group: reduced total waste per million pound of revenue by 35%
- UK: over 99% of waste avoided from landfill
- HS2 – BBV diverting over 99% of construction waste from landfill

## Communities



**2040 Ambitions**

Positively Impact More than 1 Million People

**2030 Targets**

£3bn social value generated

### 2021 highlights

- UK: over £700m social value generated
- UK: more than £1bn spent with SMEs
- 6.2% of UK workforce in emerging talent roles



\*Total waste per million pound of revenue

**Well positioned for green infrastructure growth**

# Strong outlook

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- ▶ Well positioned for 2022 and beyond
- ▶ Balfour Beatty transformed into resilient, diversified Group
- ▶ Higher quality order book provides clear visibility
- ▶ Expert capability matched to favourable infrastructure markets
- ▶ Attractive Infrastructure Investments portfolio and opportunities
- ▶ £150 million share buyback in 2022

**Confidence in significant future shareholder returns**



## Appendix

*Image: Royal Holloway student accommodation, University of London, UK*

# Forward-looking statements

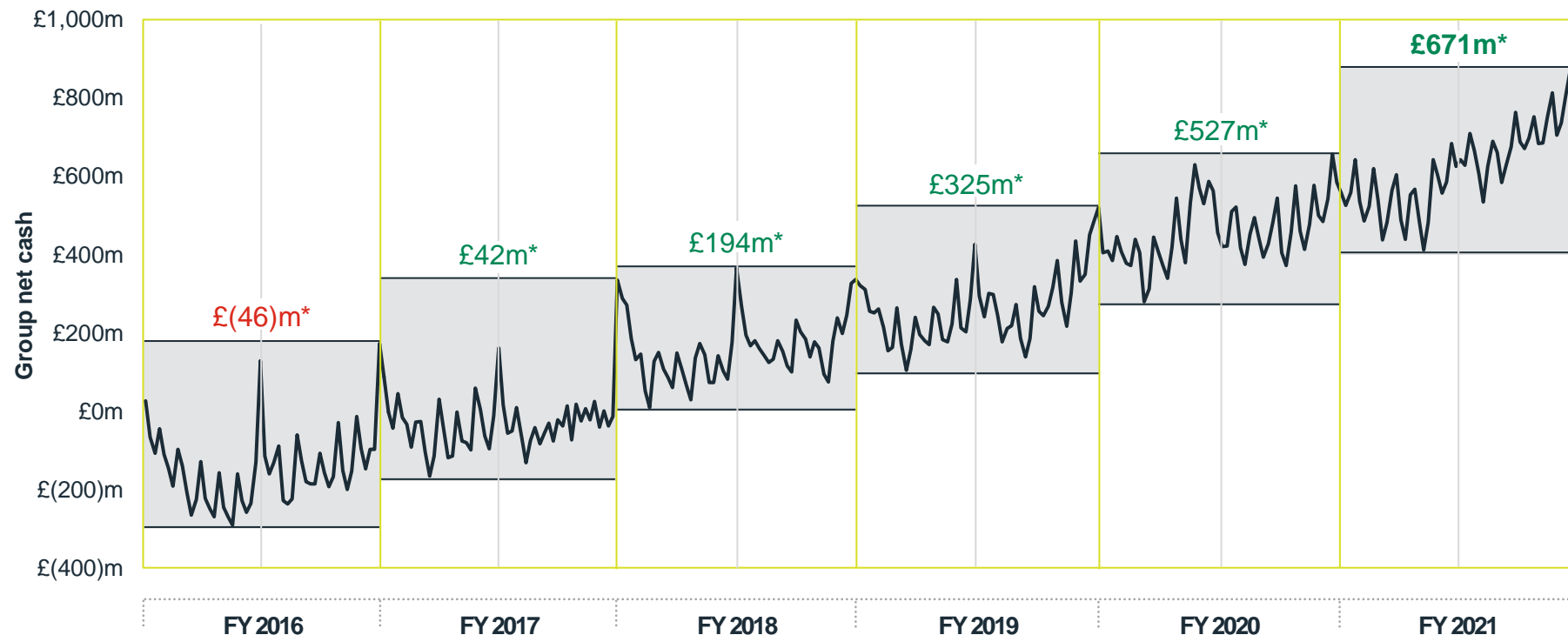
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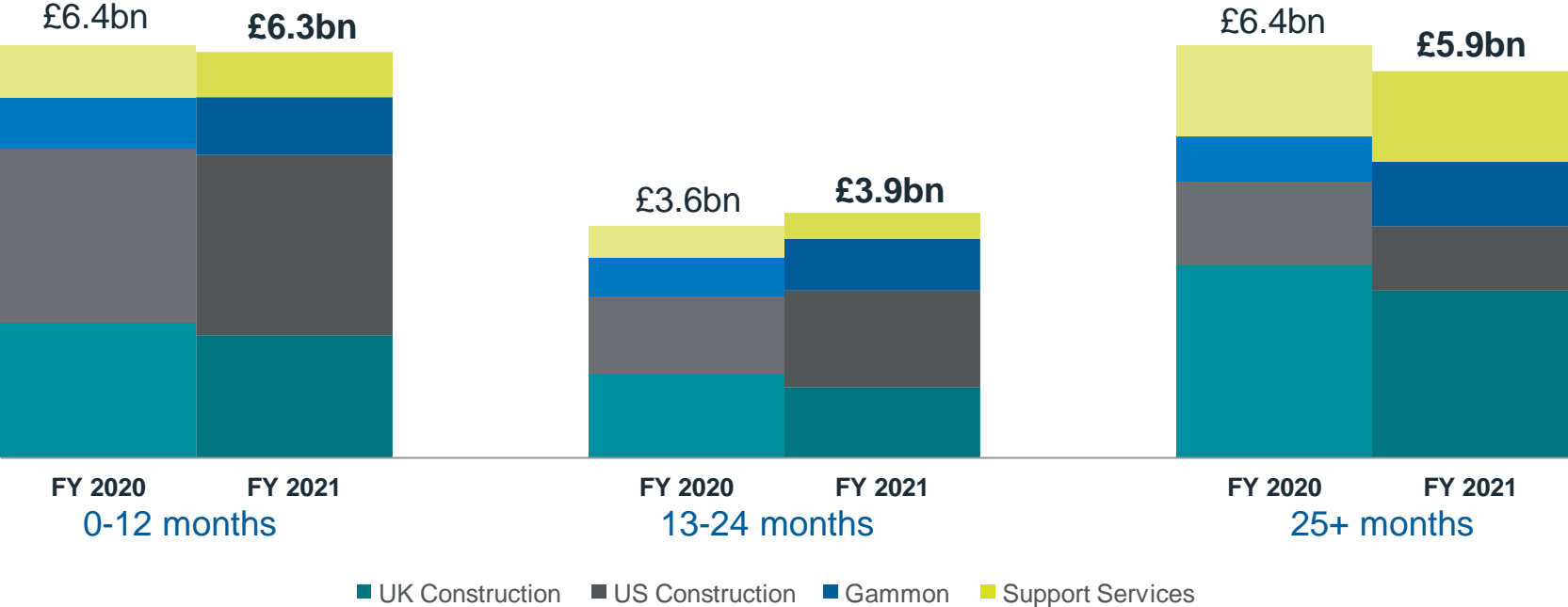
# Group net cash



\*Average monthly net cash

# Order book by phase

Total 2021 £16.1bn  
Total 2020 £16.4bn



# Order book by customer

## UK Construction



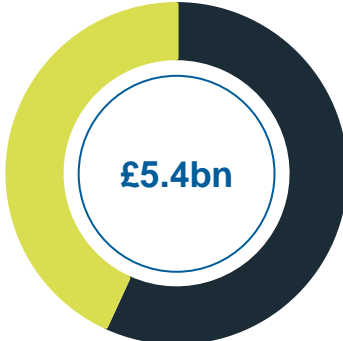
- Public & regulated (91%)
- Private sector

## Support Services



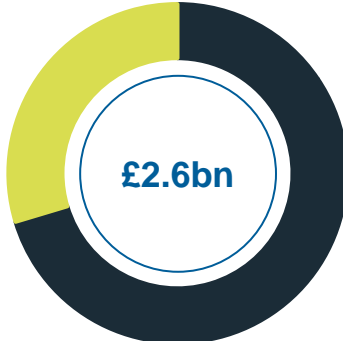
- Public & regulated (100%)
- Private sector

## US Construction



- Public & regulated (57%)
- Private sector

## Gammon



- Public & regulated (70%)
- Private sector



# Underlying profit from operations

£m	2021*	2020*
UK Construction	(2)	(26)
US Construction	51	26
Gammon	30	29
<b>Construction Services</b>	<b>79</b>	29
<b>Support Services</b>	<b>102</b>	46
<b>Earnings-based businesses</b>	<b>181</b>	75
<b>Infrastructure Investments</b>		
Pre-disposals operating profit	14	8
Gain on disposals	35	-
<b>Corporate activities</b>	<b>(33)</b>	(32)
<b>Total</b>	<b>197</b>	51

\* before non-underlying items

# Group balance sheet

£m	FY 2021	FY 2020
Goodwill and intangible assets	1,113	1,123
Working capital	(1,118)	(887)
Net cash (excluding infrastructure concessions)	790	581
Investments in joint ventures and associates	503	554
PPP financial assets	30	155
Infrastructure concessions – non-recourse net debt	(243)	(317)
Net retirement benefit assets	231	89
Net lease liabilities	(4)	(4)
Net deferred tax assets/(liabilities)	5	(24)
Other assets and liabilities	69	75
<b>Net assets</b>	<b>1,376</b>	<b>1,345</b>

# Cash flow

£m	2021	2020
Operating cash flows	115	127
Working capital inflow	281	167
Pension deficit payments <sup>‡</sup>	(42)	(18)
<b>Cash from operations</b>	<b>354</b>	276
Dividends from joint ventures & associates	60 <sup>^</sup>	50
Capital expenditure	(36)	(34)
Lease payments (inc. interest paid)	(59)	(64)
Ordinary dividends paid	(29)	-
Buyback of ordinary shares	(151)	-
Redemption of preference shares	-	(112)
Infrastructure Investments		
Disposal proceeds	81	-
New investments	(19)	(46)
Other	8	(1)
<b>Net cash movement</b>	<b>209</b>	69
Opening net cash <sup>*</sup>	581	512
<b>Closing net cash<sup>*</sup></b>	<b>790</b>	581
<b>Average net cash<sup>*</sup></b>	<b>671</b>	527

<sup>\*</sup> excluding infrastructure investments (non-recourse) net borrowings

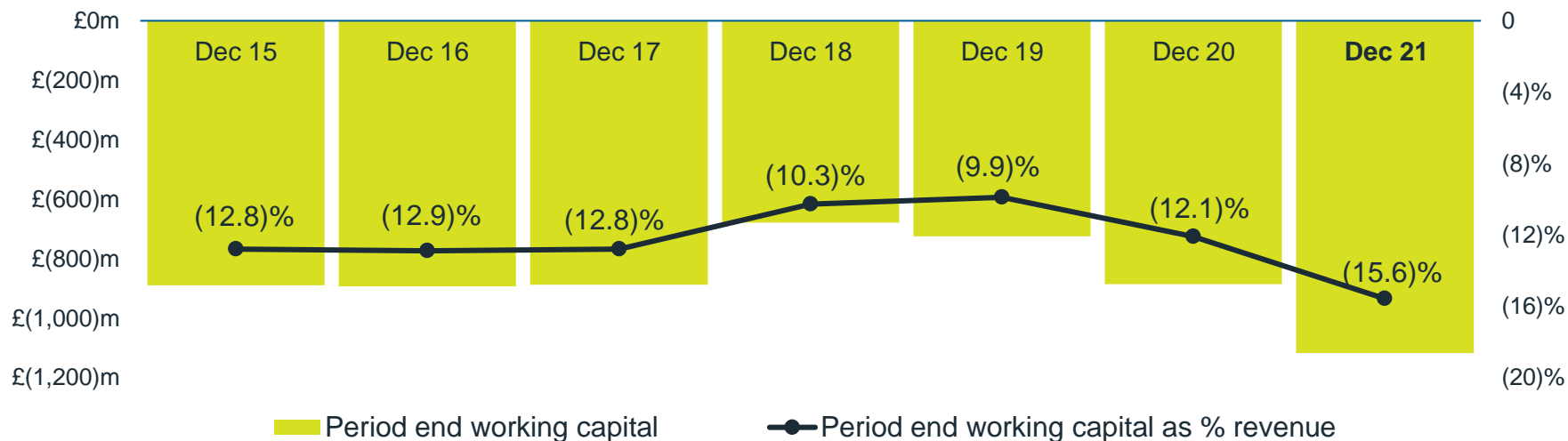
<sup>‡</sup> includes £3 million (2020: £3 million) of regular funding

<sup>^</sup> excludes £8m dividends received in 2021 in relation to Investments disposals within joint ventures and associates

£m	2021	2020
<b>Working capital flows<sup>^</sup></b>		
Inventories	11	(14)
Net contract assets	221	154
Trade and other receivables	(22)	42
Trade and other payables	43	(69)
Provisions	28	54
<b>Working capital inflow<sup>^</sup></b>	<b>281</b>	167

<sup>^</sup> excluding impact of foreign exchange and disposals

# Working capital – Group

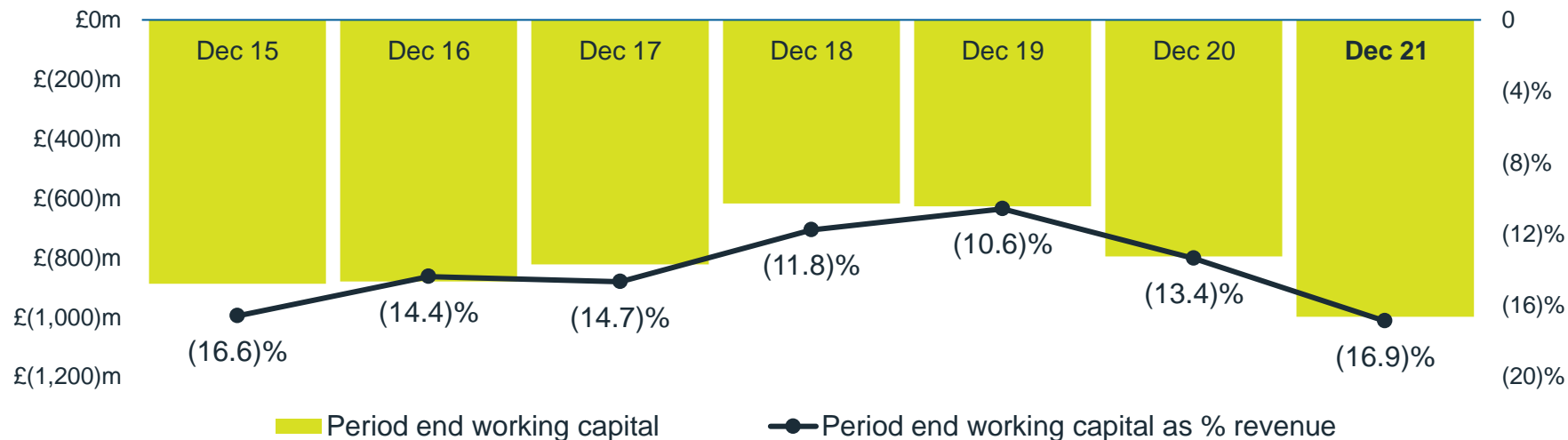


Debtor days*	27	34	28	33	29	26	26
Creditor days*	45	51	46	44	44	39	40

from continuing operations including non-underlying items

\* debtor days include current trade receivables; creditor days include current trade and other payables, excluding accruals

# Working capital – Construction Services



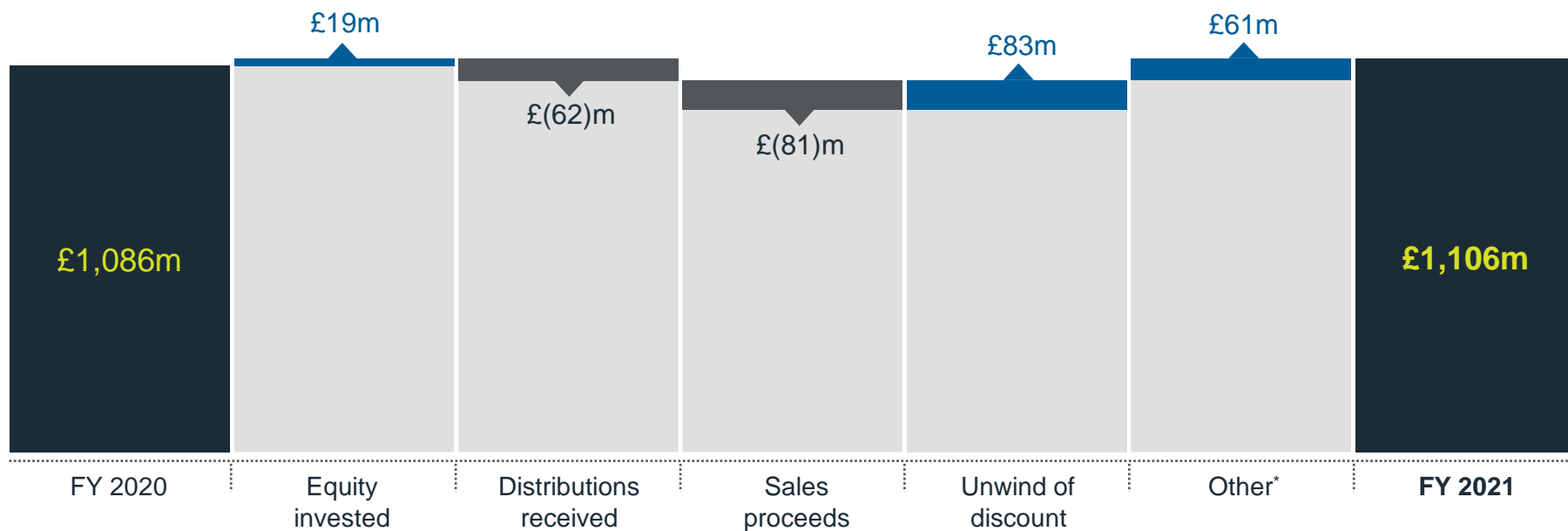
*from continuing operations including non-underlying items*

# Net finance costs

£m

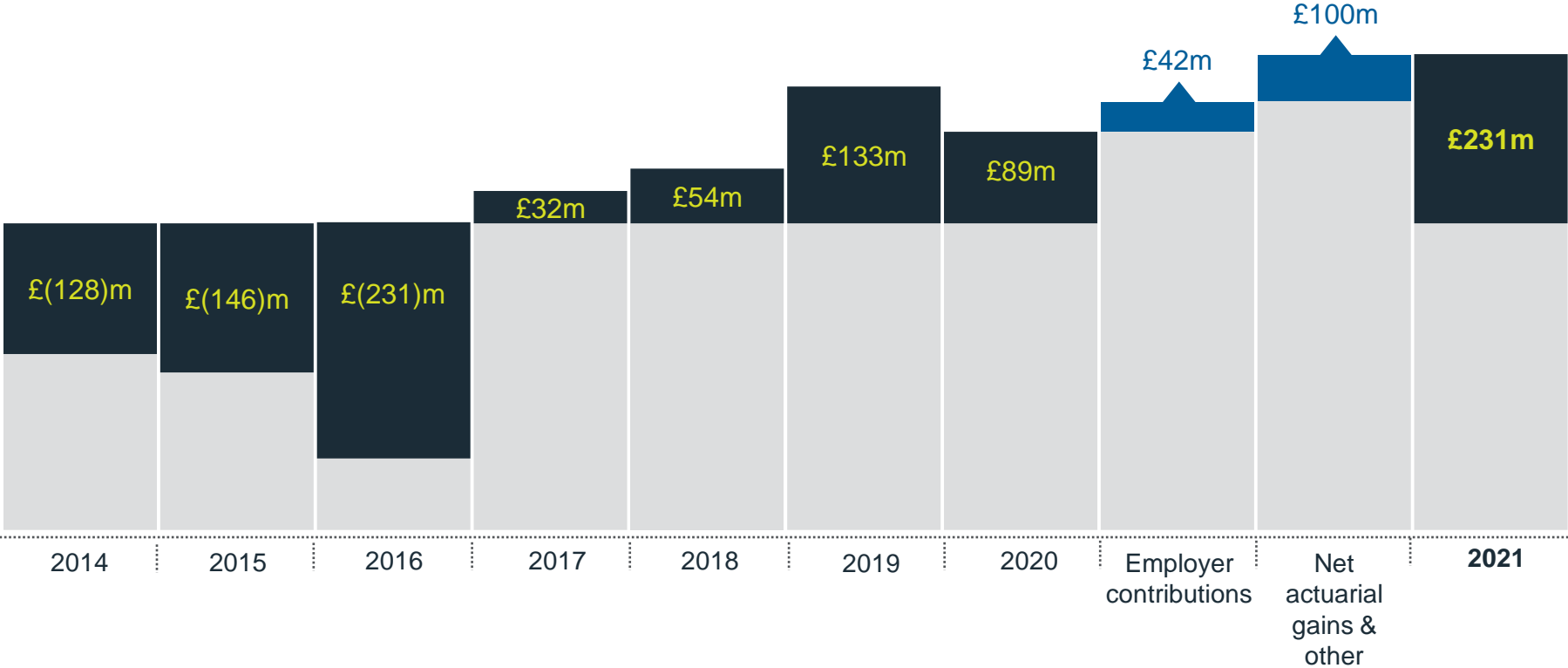
		2021	2020
Subordinated debt interest receivable	23		
Interest on PPP financial assets	5		
Interest on non-recourse borrowings	(11)	17	22
Net finance income – pension schemes		1	3
Other interest receivable	10		
Other interest payable	(8)	2	(5)
US private placement		(10)	(10)
Preference shares		-	(8)
Interest on lease liabilities		(6)	(6)
Impairment of loans and accrued interest relating to joint ventures and associates		(14)	(11)
<b>Net finance costs</b>		<b>(10)</b>	<b>(15)</b>

# Directors' valuation of Investments portfolio



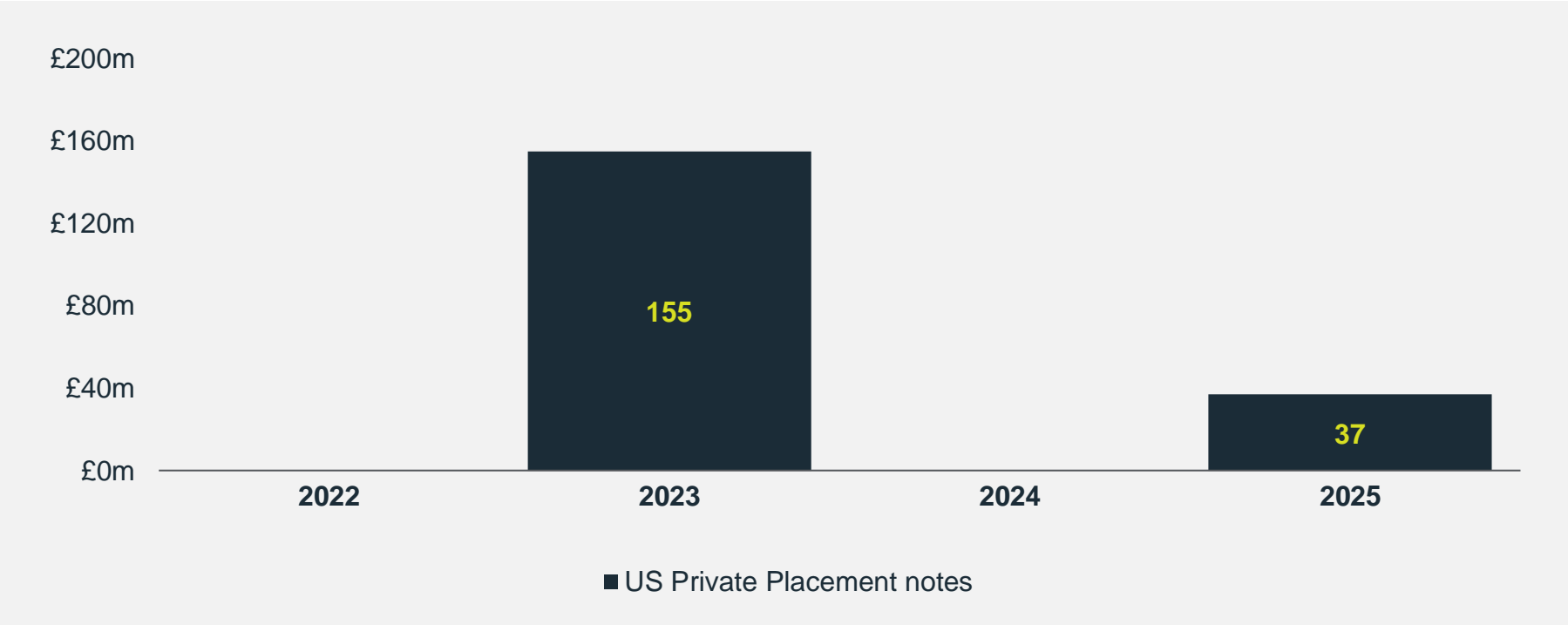
\* other includes movements in operational performance £27m, gains on disposal £21m, foreign exchange £7m and new wins £6m

# Pensions – balance sheet movement





# Borrowing repayment profile



The Group has a £375m committed bank facility extending through to October 2024, which was undrawn at 31 December 2021