



2019 full year results presentation

11 March 2020

Leo Quinn

Group Chief Executive



Benefits of Build to Last accelerating

Strong cash generation

68% increase in average net cash at £325 million

Profitable managed growth

22% increase in PFO from earnings-based businesses



Strong order book

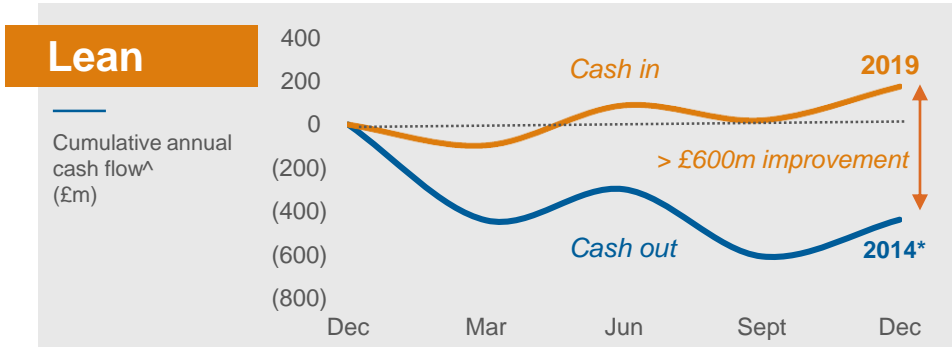
13% increase, rising to c.40% when including HS2

Long-term value creation

Annual dividend increased 33%; strong balance sheet

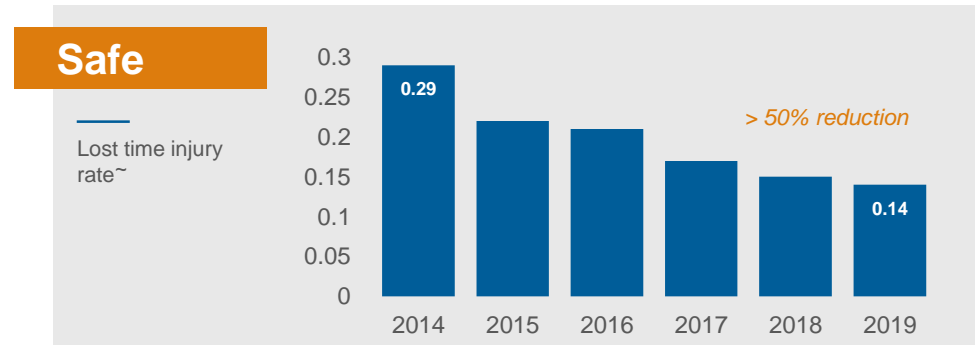
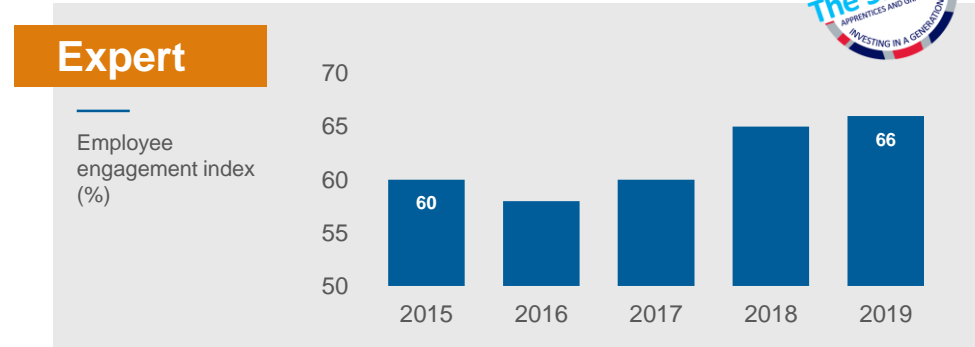
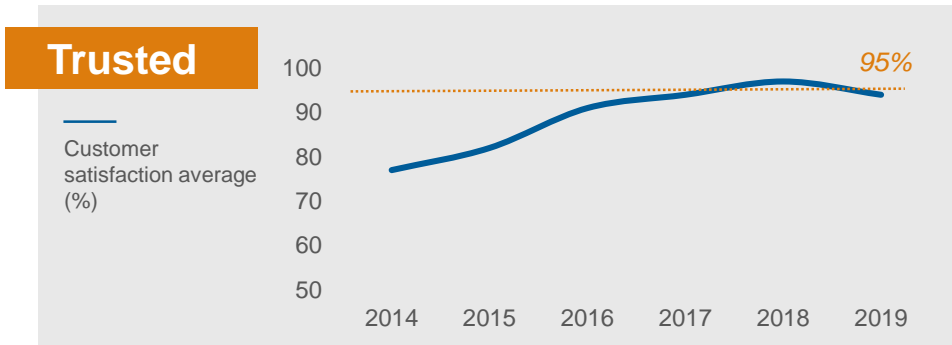
Increased profitability backed by strong cash performance

Build to Last leading indicators



[^] includes other disposals

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

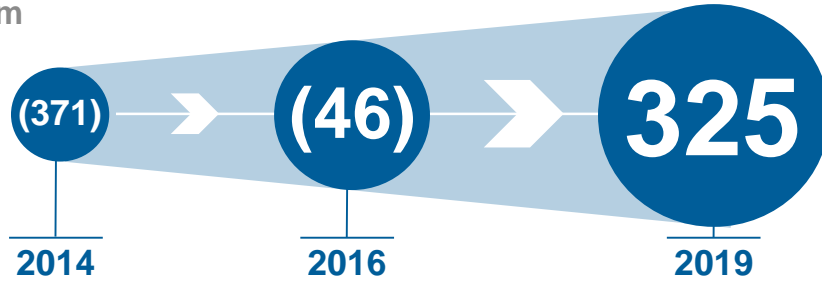


[~] excluding international joint ventures

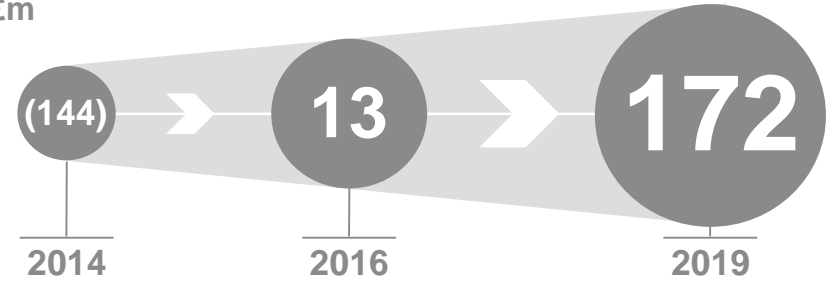
Solid foundation for profitable managed growth

Build to Last delivering

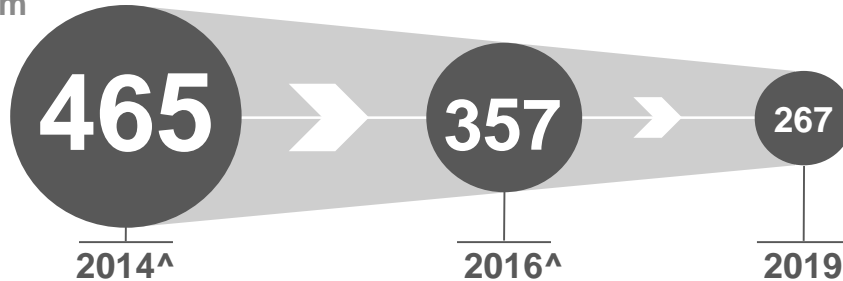
Average net cash
£m



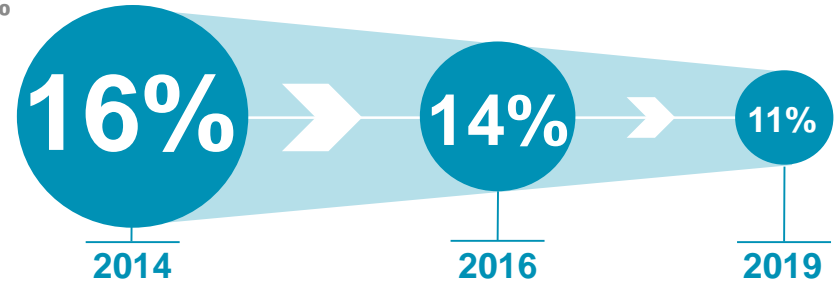
Earnings-based businesses profit/(loss) from operations*
£m



Other net operating expenses*
£m



UK voluntary attrition: moving annual average
%



* from continuing operations, before non-underlying items

^ 2014 and 2016 other net operating expenses are calculated on a Constant Exchange Rate (CER) basis

Five years of continuous improvement

Phil Harrison

Chief Financial Officer



Headline numbers

£m (unless otherwise stated)	2019	2018	Change
Revenue*	8,405	7,802	8%
Profit from operations*	221	205	8%
Pre-tax profit*	200	181	10%
Profit for the year*	186	179	4%
Basic earnings per share*	26.7p	26.3p	2%
Dividends per share	6.4p	4.8p	33%
Order book*	£14.3bn	£12.6bn	13%
Directors' valuation of Investments portfolio	£1.07bn	£1.15bn	(7)%
Period end net cash‡	512	337	52%
Average net cash‡	325	194	68%

* before non-underlying items

‡ excluding infrastructure concessions (non-recourse) net borrowings

Profitable managed growth and cash generation

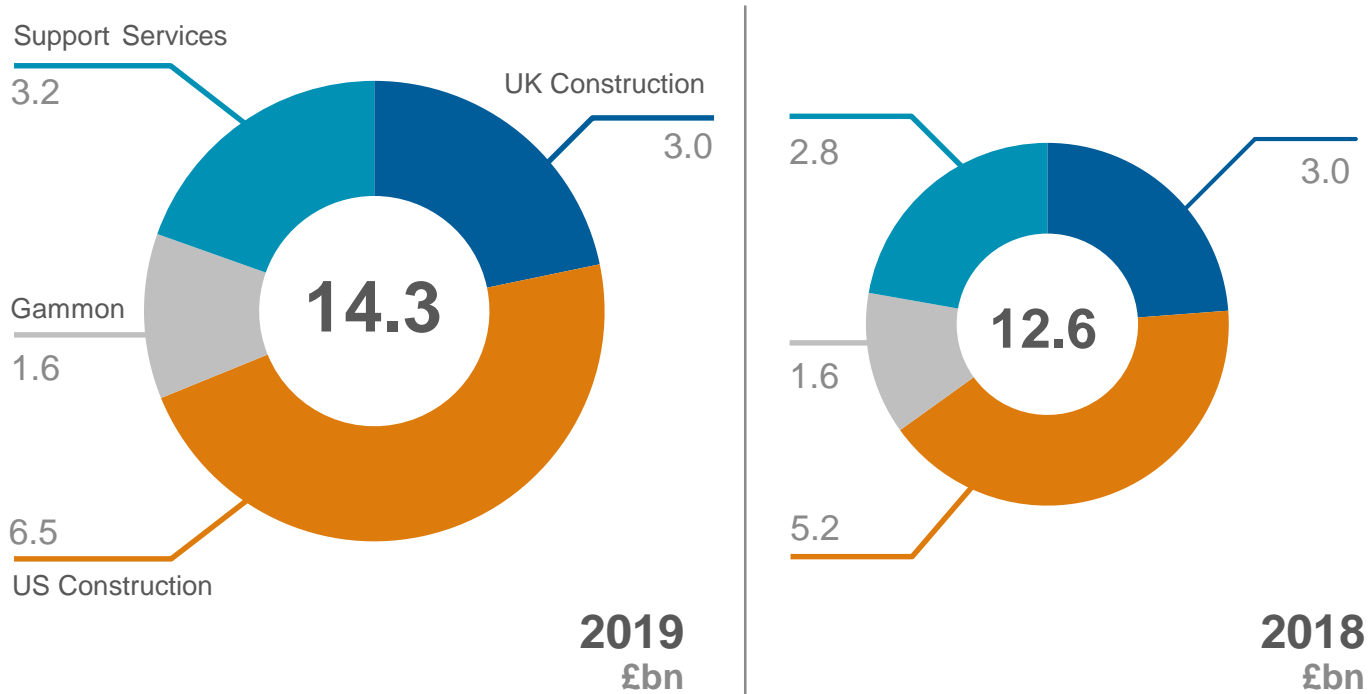
Underlying profit from operations

£m	2019*	2018*	Change
UK Construction	47	28	68%
US Construction	52	44	18%
Gammon	26	23	13%
Construction Services	125	95	32%
Support Services	47	46	2%
Earnings-based businesses	172	141	22%
Infrastructure Investments	82	97	(15)%
Corporate activities	(33)	(33)	-
Total	221	205	8%

* before non-underlying items

22% increase in earnings-based businesses PFO

Order book summary



- 13% increase driven by US Construction bookings
- Maintained Group's disciplined bidding strategy; winning work on more favourable T&Cs
- HS2 Lots N1 & N2 and Old Oak Common not yet included. Expected to book over £3 billion in H1 2020, more than doubling UK order book
- c.40% increase in Group order book with HS2 awarded but not contracted

Increasing order book provides confidence in outlook

Construction Services

£m	2019*			2018*		
	Revenue	PFO	PFO%	Revenue	PFO	PFO%
UK	2,213	47	2.1%	1,900	28	1.5%
US	3,752	52	1.4%	3,329	44	1.3%
Gammon	893	26	2.9%	898	23	2.6%
Total	6,858	125		6,127	95	

* before non-underlying items

- UK: 16% increase in revenue; full year PFO margin within 2-3% industry standard range for first time under Build to Last
- US: 13% (CER 8%) increase in revenue with 18% increase in PFO; margin within 1-2% industry standard range
- Gammon: strong performance in year with 13% increase in PFO at £26 million

32% increase in Construction Services PFO

Support Services

£m	2019	2018
Revenue		
Utilities	551	651
Transportation	472	453
Total	1,023	1,104
Profit from operations*	47	46
PFO margin*	4.6%	4.2%

* before non-underlying items

- Expected decline in revenue successfully offset with higher margins such that PFO maintained
- Performance of power business now accelerating
- Not rebidding gas contracts under RIIO-GD2: creates £58 million non-cash, non-underlying impairment
- Strong transportation market with Central Track Alliance and M25 Connect Plus

Margin improved through selective bidding

Infrastructure Investments

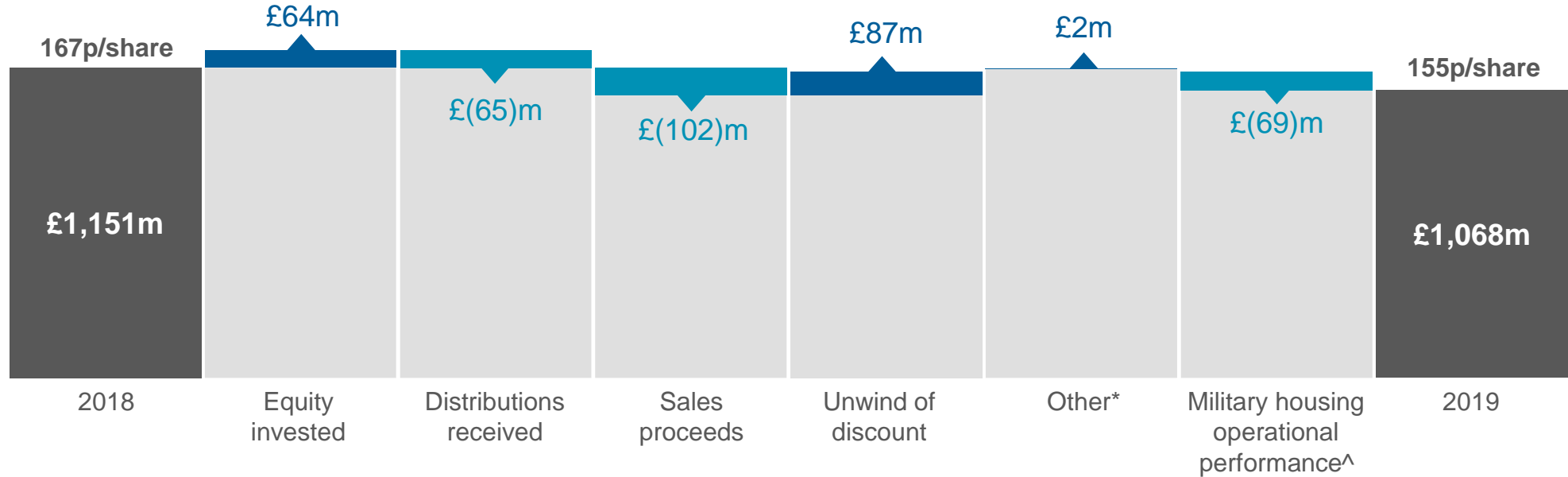
£m	2019	2018
Pre-disposals operating profit*	13	15
Profit on disposals*	69	82
Investments profit*	82	97
Subordinated debt interest receivable	20	21
Infrastructure concessions' net interest	(4)	(5)
Investments pre-tax profit*	98	113

* before non-underlying items

- Operating profit decreased following significant disposals in 2018
- Ten disposals and five new projects added to the portfolio in 2019
- All disposals at, or above, Directors' valuation
- 2019 profit on disposal exceeded expectations at £69 million
- US opportunities: student accommodation, multi-family housing and P3 projects
- UK opportunities: student accommodation

Continuing strategy to optimise value whilst re-investing selectively

Directors' valuation of Investments portfolio



^ total military housing movement in year was £(79)m of which £(69)m was operational performance. Annual movement also includes combined £(10)m for distributions received, unwind of discount and foreign exchange movement
* other includes movements in: £13m new project wins; £25m gain on sales; £(17)m operational performance excluding military housing; and £(19)m foreign exchange movement

Directors' valuation at £1.1 billion

US military housing

Performance improvement plan

- Recognise operational challenges; delivering robust performance improvement plan
- Significant management restructure

Department of Justice investigation

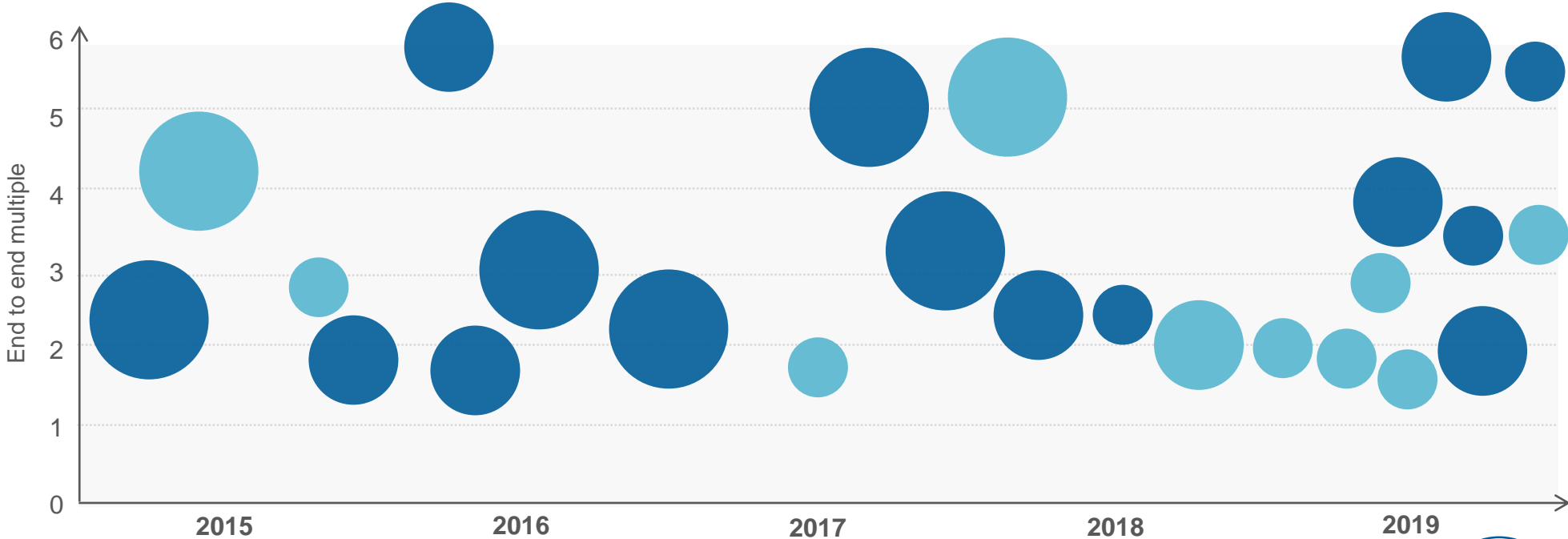
- Investigation ongoing
- Group not able to provide an indication of outcome, including timing or any quantum

Directors' valuation

- Reassessment of future rental income, project costs and incentive fees
 - Project costs: increases agreed with the military to improve housing experience and cover higher insurance costs
 - Incentive fees: higher discretionary portion than historical agreement
- £69 million reduction in operational performance contributed to total annual reduction of £79 million in valuation of military housing portfolio

Committed to meeting the expectations of residents and military partners

Investments portfolio disposals



* calculated as the sales proceeds plus distributions received over time divided by the original equity investment

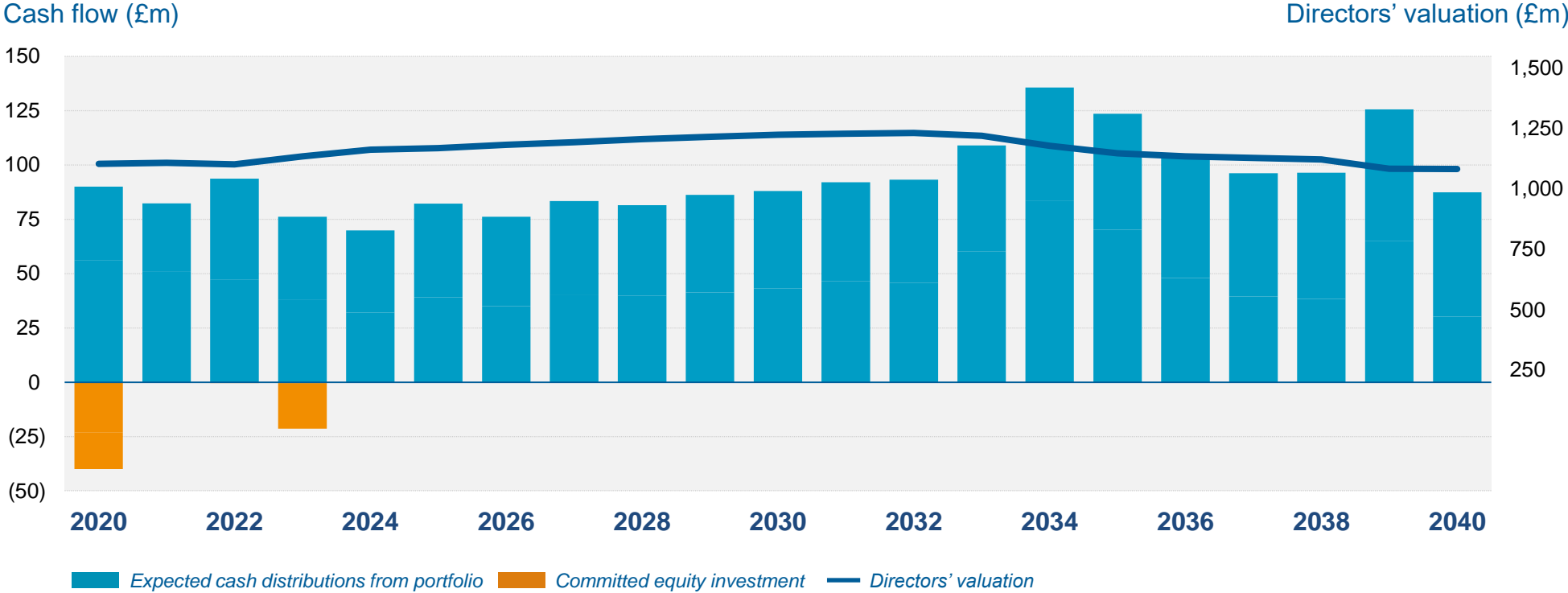
Above
Directors'
valuation
At
Directors'
valuation

Sale proceeds:

- £30m+
- £11-30m
- £0-10m

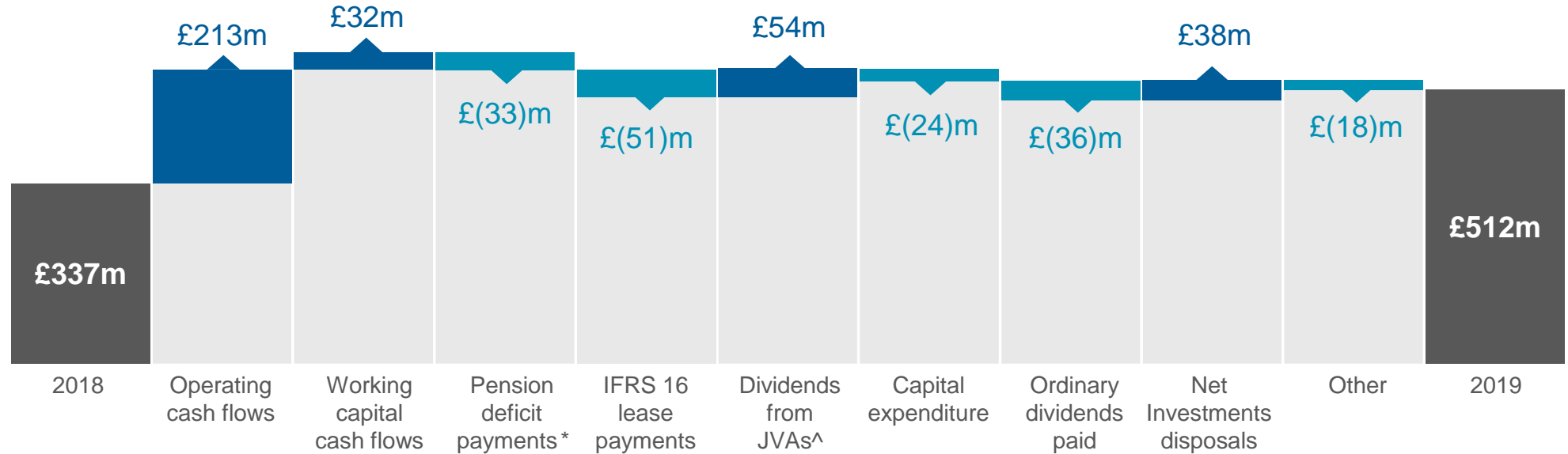
Realising value from the Investments portfolio

Investments portfolio annual cash flows



Long life cash flows

Cash flow waterfall



* includes £3m of regular funding

^ excludes £41m dividends received in relation to Investments asset disposals within JVs

Strong cash generation from operating cash flows

Leo Quinn

Group Chief Executive

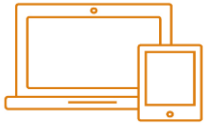


Creating long-term value

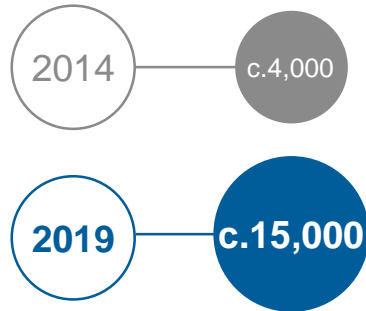
Balfour Beatty

Building a scalable platform

Common platforms and systems



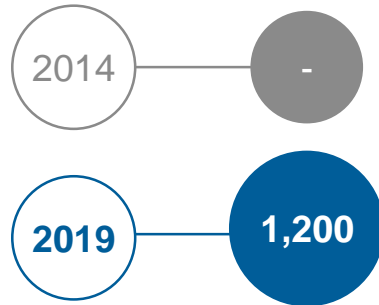
Number of Group employees on R12/JD Edwards



Standardised controls



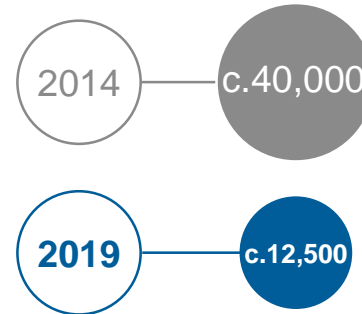
Number of 'Projects on a Page'



Streamlined supply chain



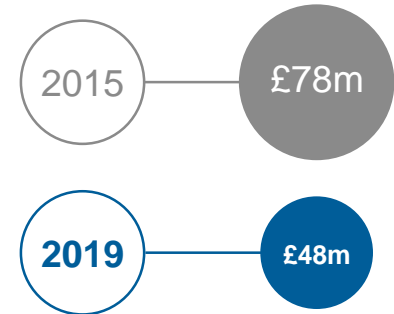
UK supply chain partners



Leaned out support functions

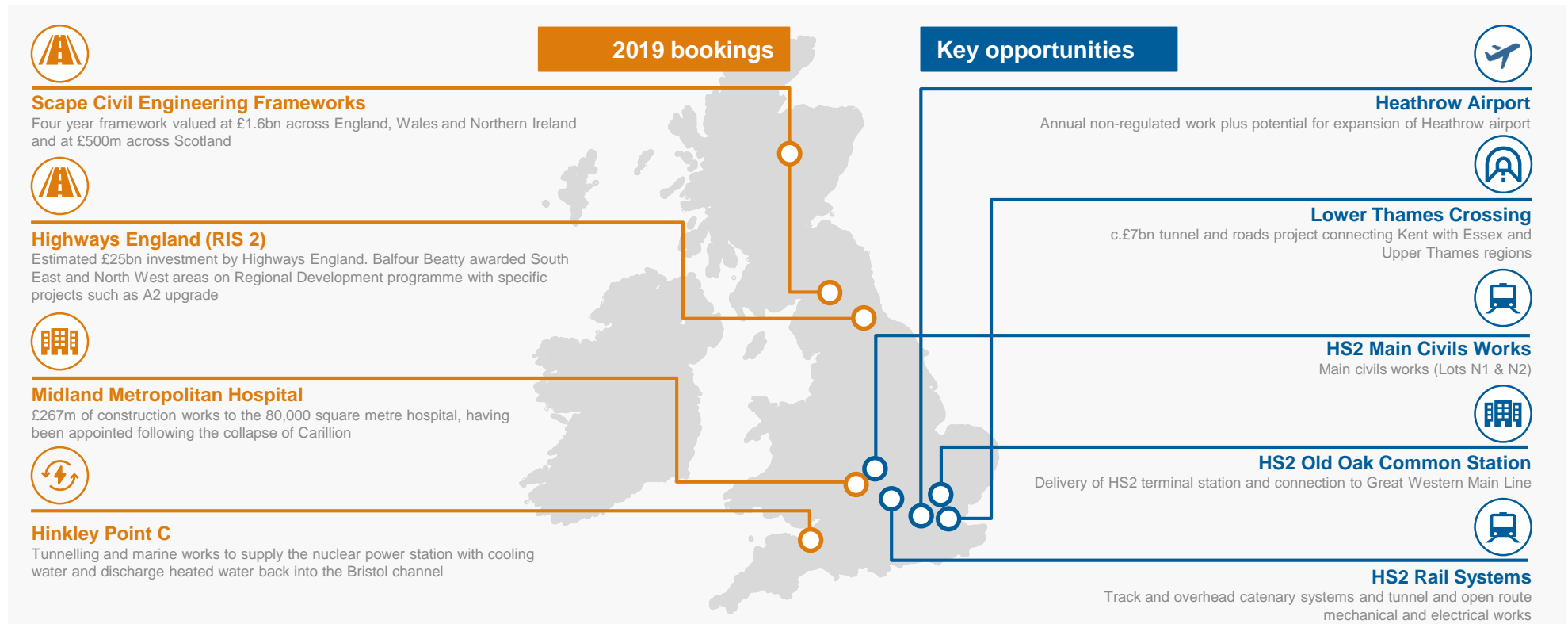


Annual IT costs



Scalable platform to drive profitable managed growth

UK Construction market



Well positioned to capitalise on decade of opportunities

HS2 – a decade of infrastructure investment

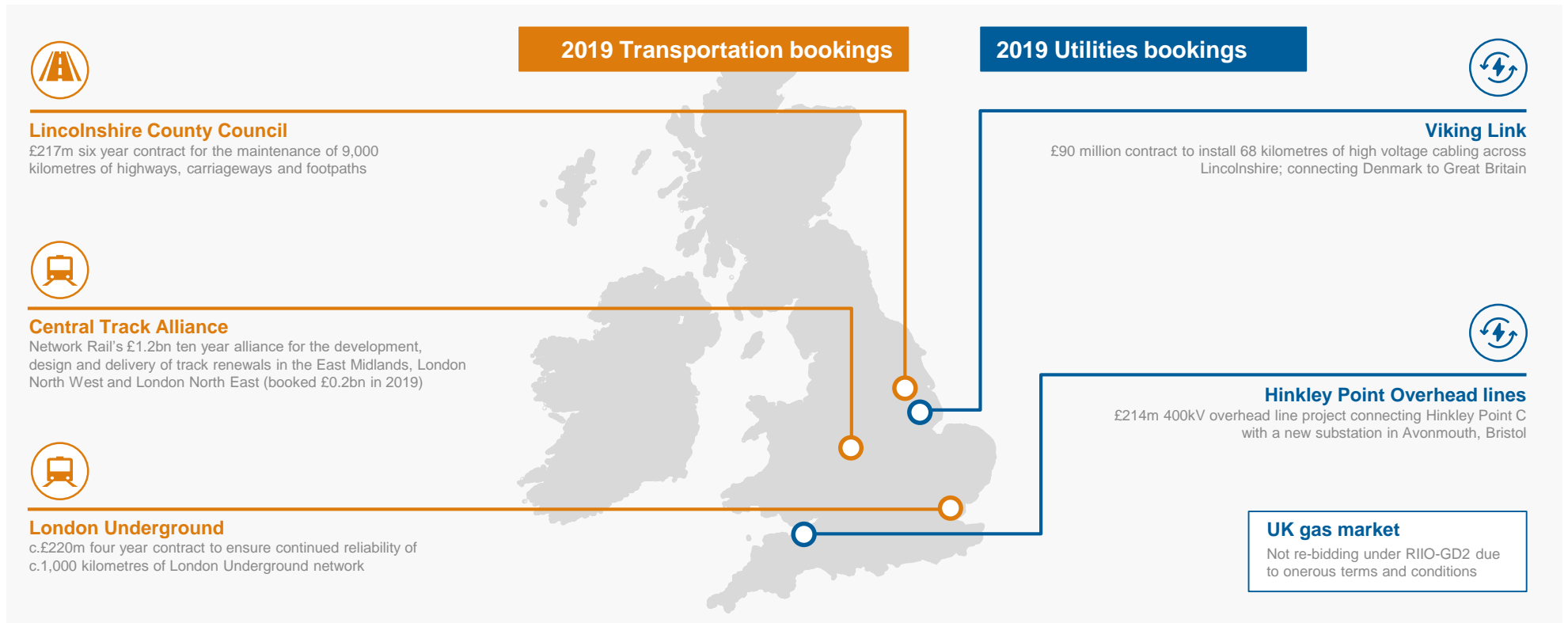
Planned HS2 phases



	Contract description	Total opportunity	Detail	Status	Balfour Beatty expertise			
					Civils	Rail	Power	M&E
Phase 1 (awarded but not contracted)	Lot N1 and N2 main works civils	> £6 billion Balfour Beatty VINCI JVs	Awarded (2017)	Awaiting notice to proceed	✓	✓		
	Old Oak Common Station		Awarded (2019)	Awaiting notice to proceed	✓	✓		✓
Phase 1 (future)	Rail systems, Track and Tunnels, Lots 1-2	c. £1 billion	Award expected 2022	Await invitation to tender	✓	✓	✓	✓
	Rail systems, M&E, Power & OCS Lots 2-3	c. £1 billion	Award expected 2022	Await invitation to tender	✓	✓	✓	✓
Phase 2a	Birmingham to Crewe – All lots	c. £3.5 billion	Award expected 2022	Await invitation to tender	✓	✓	✓	✓
Phase 2b	Manchester and Leeds – All lots	c. £25 billion	~	Under review by Government	✓	✓	✓	✓

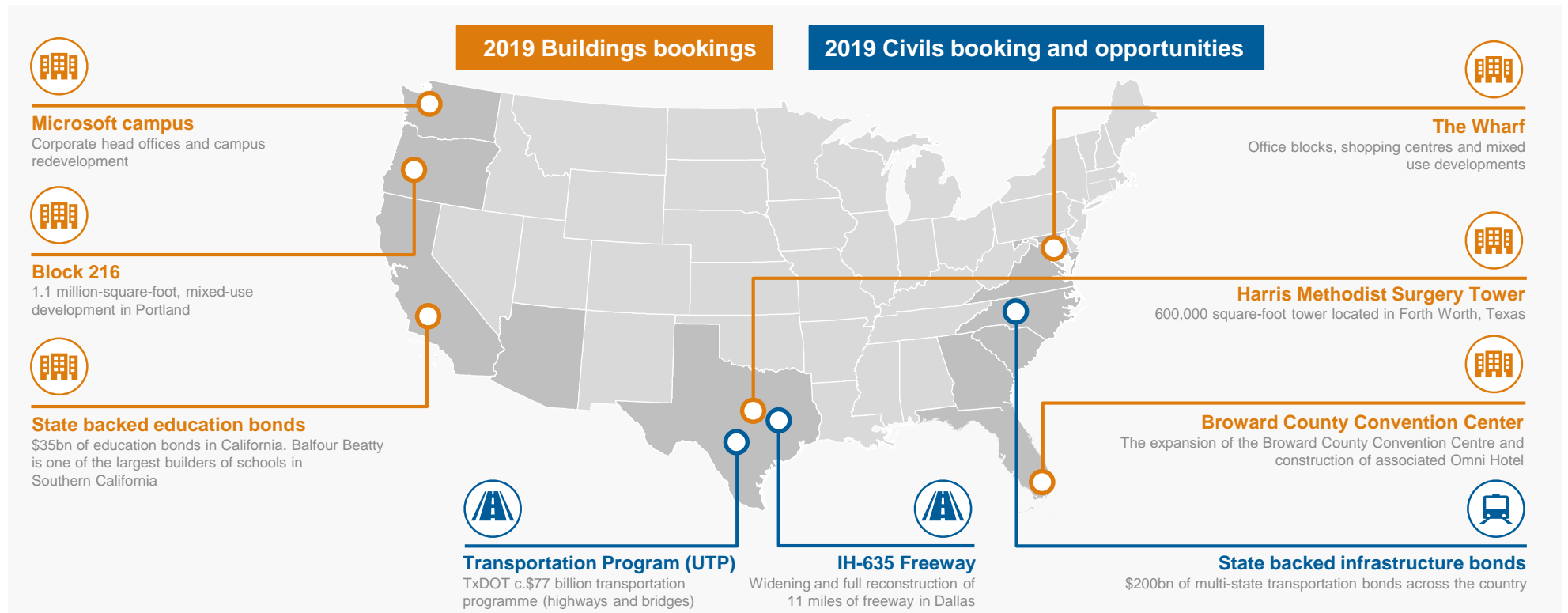
Transformative opportunity for the industry

UK Support Services market



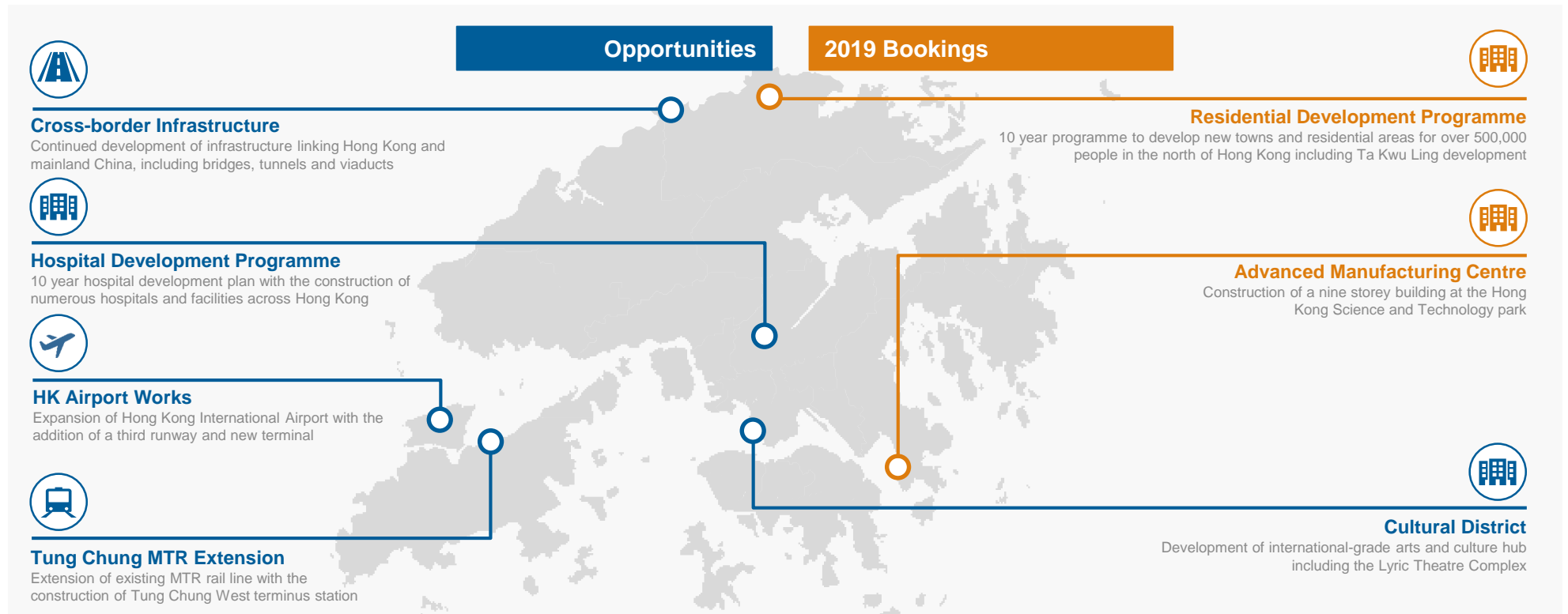
Selective bidding and strong work winning

US Construction markets



Well positioned in large and growing chosen markets

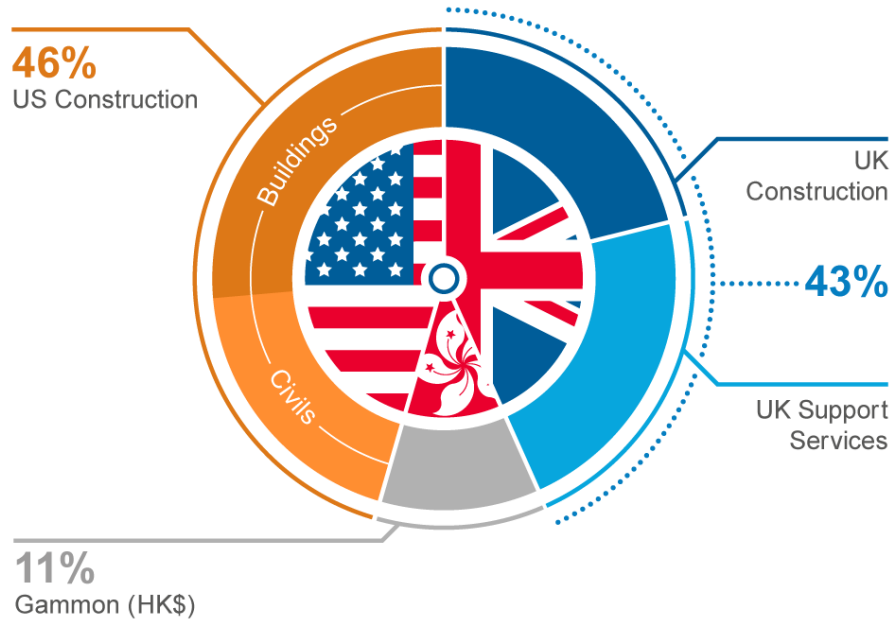
Hong Kong opportunities



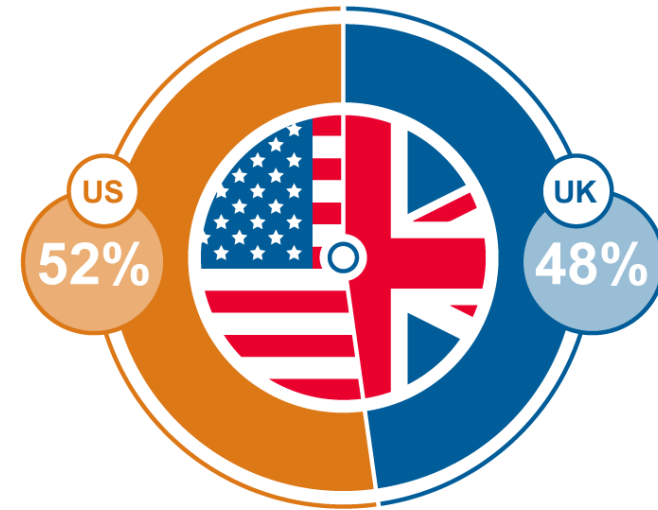
Well positioned in a competitive growing market

Geographically and operationally diversified Group

£14.3bn order book



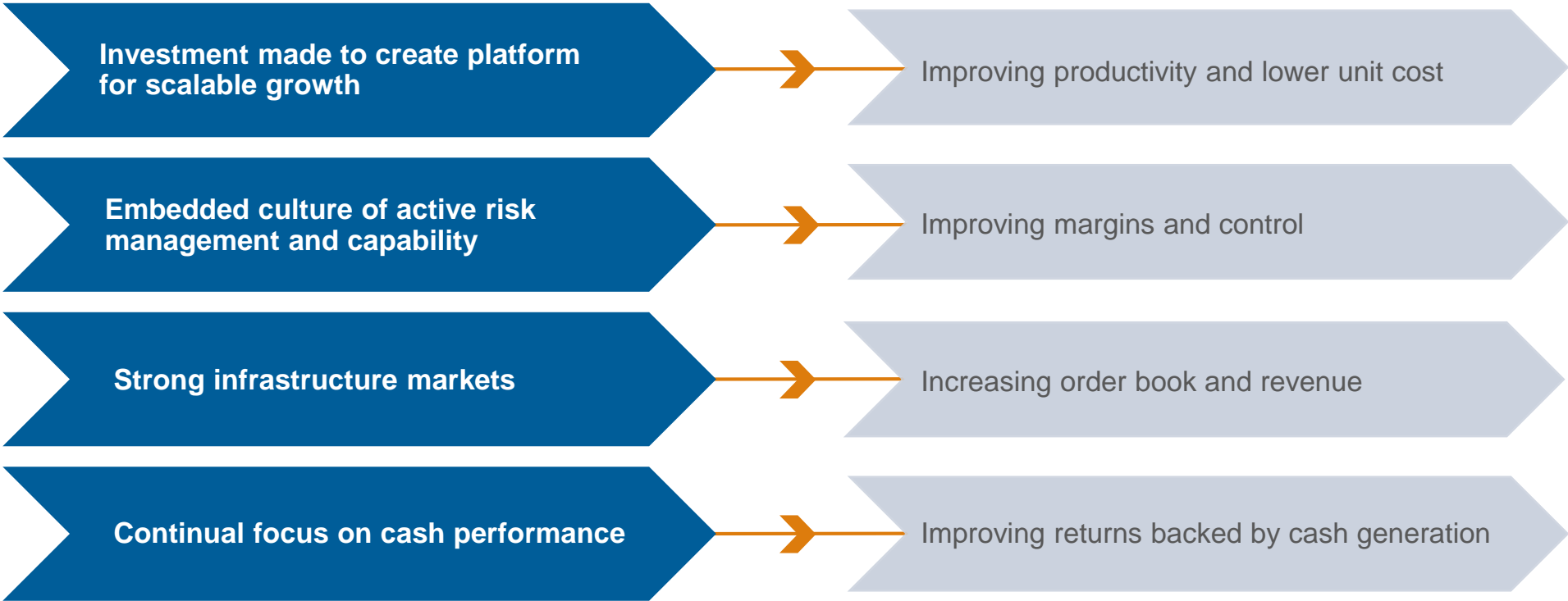
£1.1bn* Investments portfolio



* Directors' valuation

Over half of business outside the UK

Translating Build to Last into value delivery



Benefits of Build to Last accelerating

Appendix

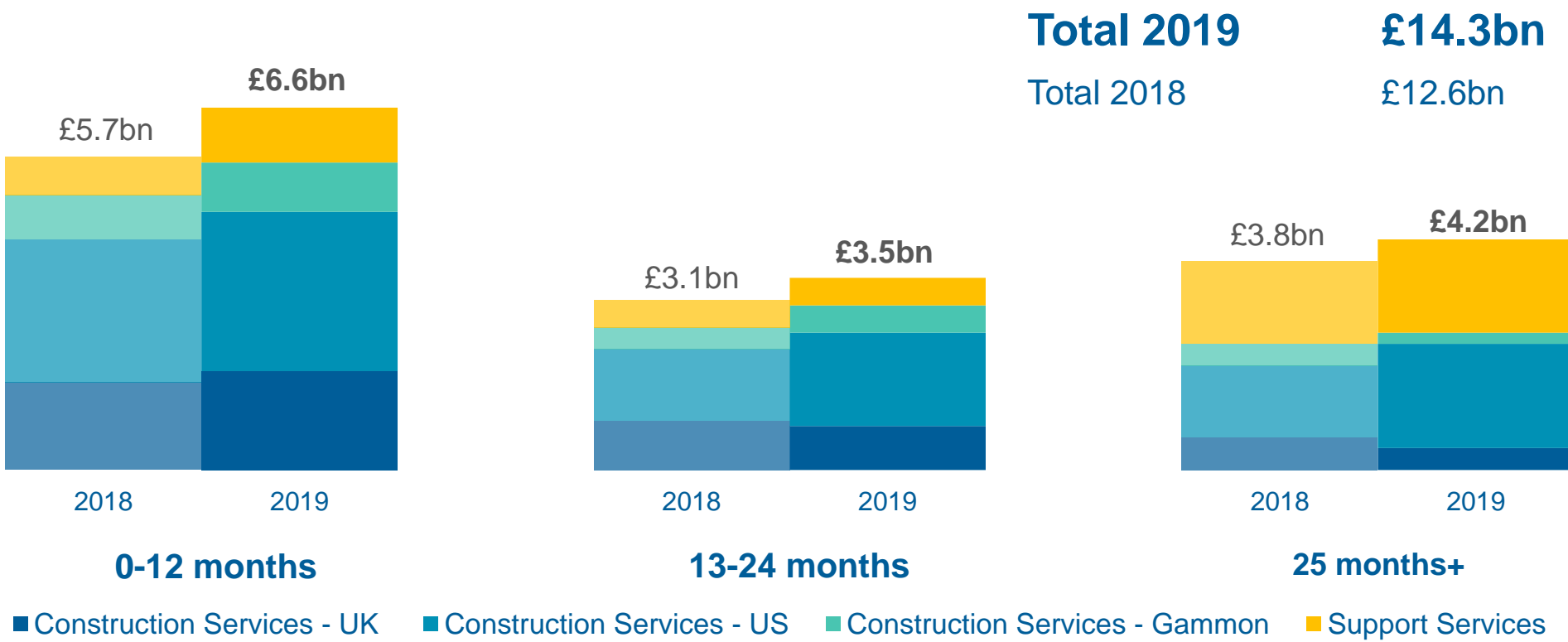
Forward-looking statements

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 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 77 to 84 of the Annual Report and Accounts 2019.

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Order book position compared with 2018



Cash flow

£m	2019	2018
Operating cash flows	213	127
Working capital inflow/(outflow)	32	(229)
Pension deficit payments [°]	(33)	(30)
Cash from/(used in) operations	212	(132)
IFRS 16 lease payments	(51)	-
Dividends from joint ventures & associates [∞]	54	76
Capital expenditure	(24)	(41)
Ordinary dividends	(36)	(27)
Infrastructure Investments		
Disposal proceeds	102	187
New investments	(64)	(58)
Other	(18)	(3)
Net cash movement	175	2
Opening net cash*	337	335
Closing net cash*	512	337
Average net cash*	325	194

* excluding infrastructure concessions (non-recourse) net borrowings

[∞] excludes £41 million dividends received in 2019 in relation to Investments asset disposals within joint ventures and associates

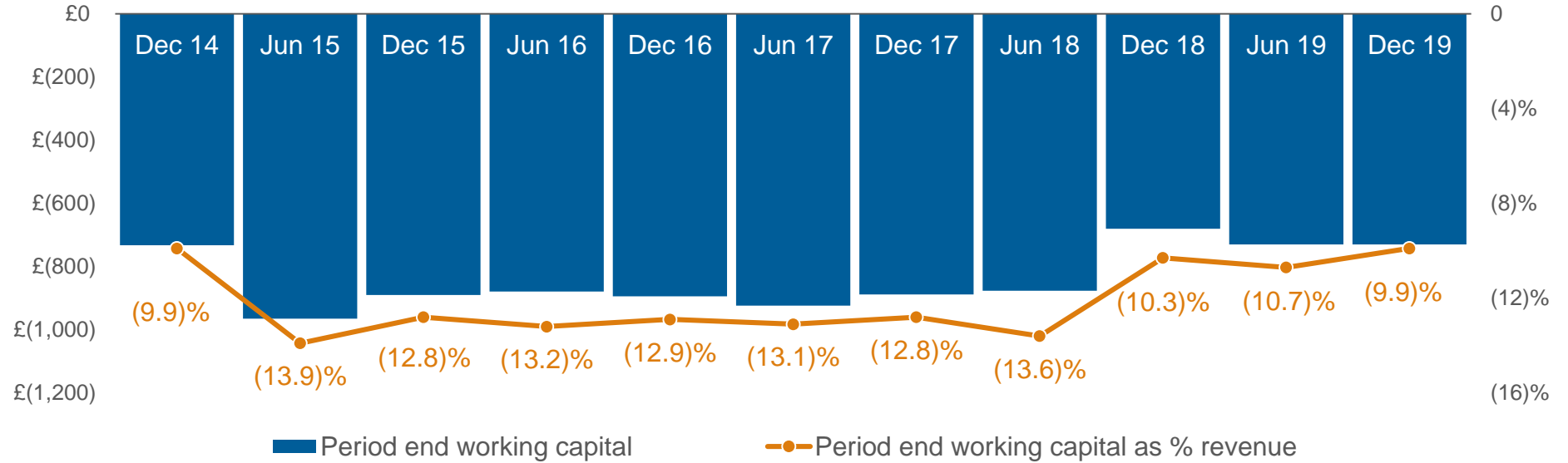
[°] includes £3 million (2018: £3 million) of regular funding

£m	2019	2018
Working capital flows[^]		
Inventories	(18)	(16)
Net contract assets	(30)	51
Trade and other payables	157	(196)
Trade and other receivables	(56)	12
Provisions	(21)	(80)
Working capital inflow/(outflow)[^]	32	(229)

[^] excluding impact of foreign exchange and disposals

- Cash from operations in line with PFO
- Stable working capital
- 68% increase in average net cash at £325m

Working capital – Group

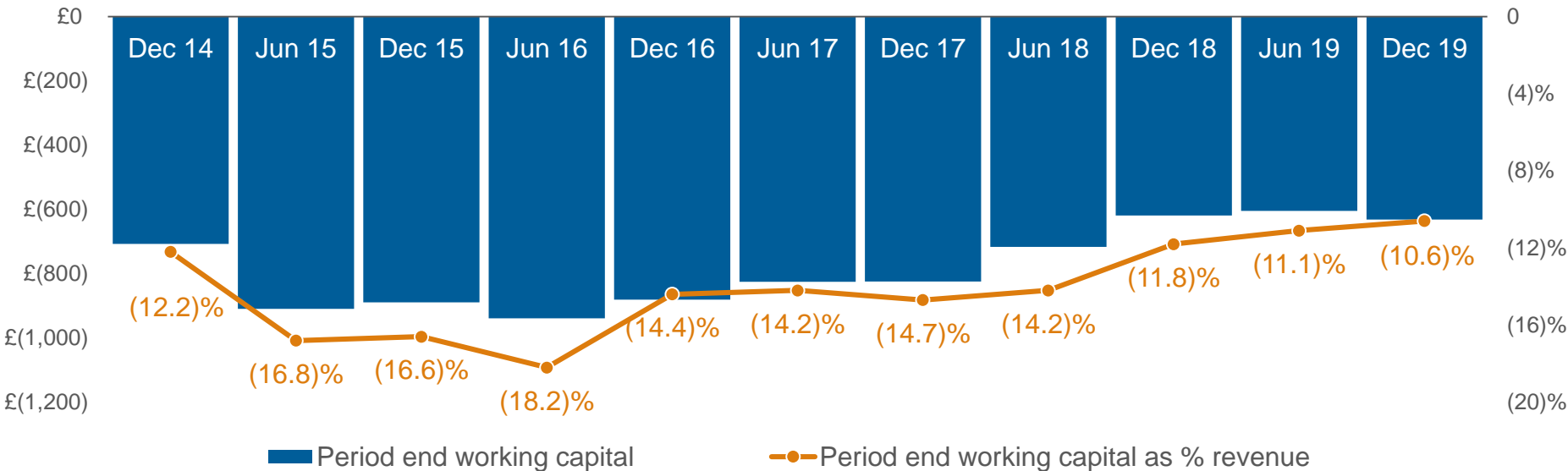


<i>Debtor days</i> ¹	29	28	27	30	34	37	28	37	33	34	29
<i>Creditor days</i> ¹	46	53	45	52	51	53	46	55	44	49	44

from continuing operations including non-underlying items

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

Working capital – Construction Services



from continuing operations including non-underlying items

Group balance sheet

£m	2019	2018
Goodwill and intangible assets	1,128	1,161
Working capital	(725)	(680)
Net cash (excluding infrastructure concessions)	512	337
Investments in joint ventures and associates	550	524
PPP financial assets	155	156
Infrastructure concessions – non-recourse net debt	(302)	(309)
Net retirement benefit assets	133	54
Net lease liabilities	(7)	-
Net deferred tax liabilities	(16)	(10)
Other assets and liabilities	(51)	8
Net assets	1,377	1,241

Non-underlying items

£m	2019	2018
Impairment and amortisation		
Amortisation of acquired intangibles	(6)	(8)
Restructuring and reorganisation		
Build to Last transformation costs	-	(11)
Disposals and other		
Impairment of goodwill relating to Gas & Water	(58)	-
Provision release relating to settlements of health and safety claims	2	13
Additional loss on the AWPR contract as a result of Carillion filing for liquidation	-	(10)
Additional gain on disposal of Balfour Beatty Infrastructure Partners	-	3
Loss arising from recognition of GMP equalisation on pension schemes	-	(28)
Loss on disposal of Heery International Inc.	-	(12)
Costs relating to the liquidation of the Malaysia joint venture	-	(5)
Tax		
Non-underlying recognition of deferred tax assets in the UK	9	-
Recognition of GMP equalisation on the Group's pension schemes	-	5
Other	-	9
Total non-underlying items	(53)	(44)

Net finance costs

£m		2019	2018
Subordinated debt interest receivable	20		
Interest on PPP financial assets	9		
Interest on non-recourse borrowings	(13)	16	16
Net finance income – pension schemes		2	2
Other interest receivable	3		
Other interest payable	(8)	(5)	(6)
US private placement		(12)	(12)
Convertible bonds		-	(9)
Preference shares			
Finance cost	(12)		
Accretion	(4)	(16)	(15)
Interest on lease liabilities		(6)	-
Net finance costs		(21)	(24)

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

FY 2019

Income statement

- Profit from operations +£6m
- Finance costs +£6m
- Net nil impact on profit before tax
- PFO includes £45m of depreciation charges on right-of-use assets

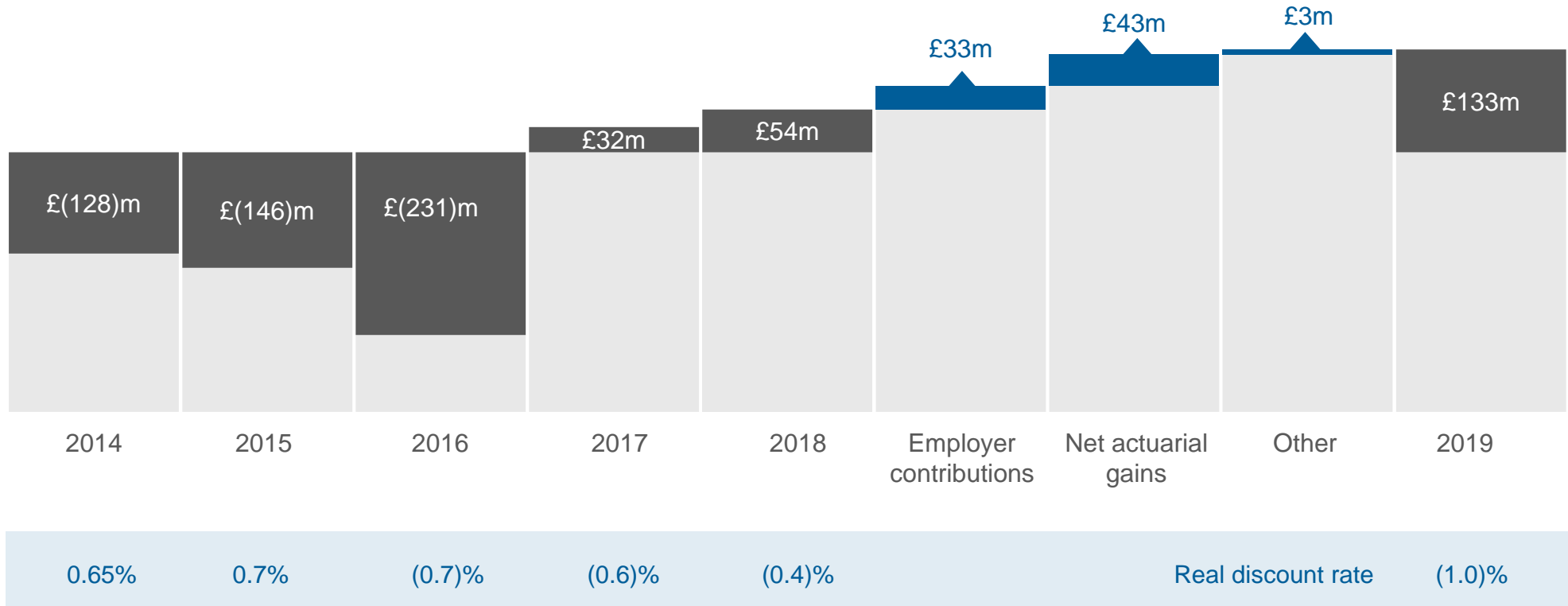
Operating cash flow

- The lease cash expense previously included in operating activities is now included in financing activities
- Cash from operating activities +£51m
- Cash from financing activities -£51m
- Net nil impact on cash flow

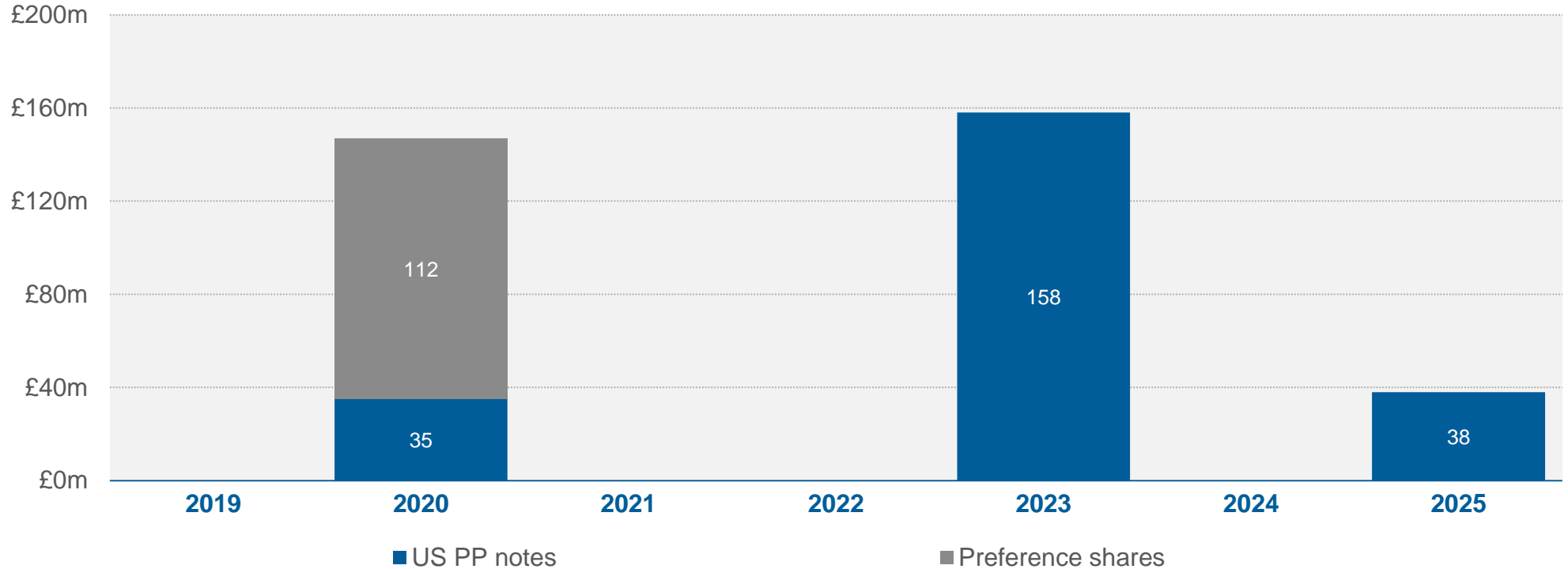
Net cash

- 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

Pensions – balance sheet movement



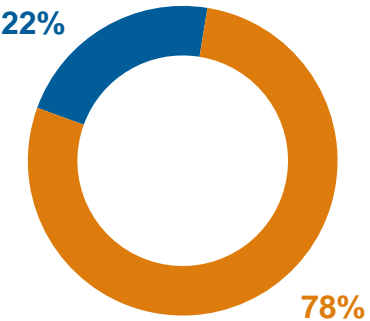
Borrowing repayment profile



The Group has a £375 million committed revolving credit facility extending through to 2022, which was undrawn at 31 December 2019

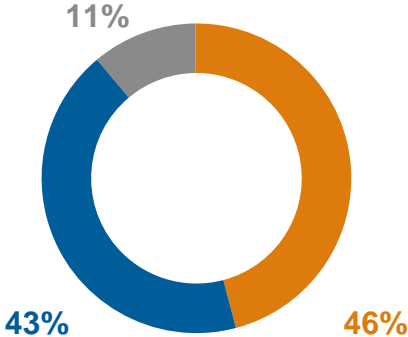
Geographically and operationally diversified Group

Diversified company



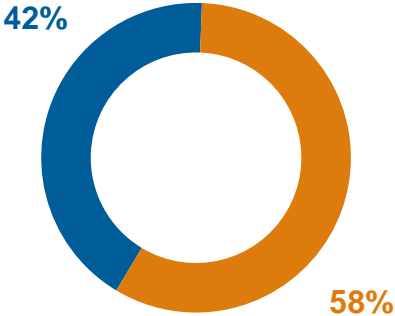
- Construction Services
- Support Services

Balanced geographic footprint



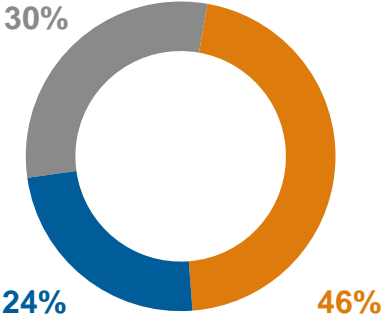
- United States
- United Kingdom
- Hong Kong

Attractive end markets



- Infrastructure
- Construction

Diverse client base



- Public sector
- Regulated industry
- Private sector

Analyses of order book as at 31 December 2019

Balfour Beatty: leading the conversation



From blueprint to build and beyond

Supporting our customers in decarbonising construction and infrastructure

January 2020

Balfour Beatty



Transforming infrastructure

Skills for the UK's megaprojects

May 2019

Balfour Beatty



25% by 2025

Streamlined construction:
Seven steps to offsite and modular building

August 2018

Balfour Beatty

Financial history

450%

Increase in revenue at peak

45

Acquisitions

£94m

Average ordinary dividend (2011-2014)

£21m

Average ordinary dividend (2015-2019)

