UK CONSTRUCTION WORKING CAPITAL AND SUPPLY CHAIN PAYMENTS

The UK business is targeting improvements in its supplier payments and is fully engaged with the current discussion regarding payment practices.

In addition, the Board believes that alongside this discussion the industry needs to provide a more strategic response to the credit issues within the UK construction sector, which have continued more than ten years after the peak of the last UK recession.

Since the end of the last recession access to traditional bank funding by tier one and sub-contractors alike has reduced due to a loss of appetite for the sector by UK banks. Reliance on off-balance sheet support has also become tighter due to a reduction in the attractiveness and the availability of bonding and guarantee facilities.

At the same time as this increase of pressure in lending capacity, we have seen a continuation of a traditional approach to payments to tier one contractors by many of our clients, particularly within the public sector.

Tier one cash flow is particularly sensitive to the length of time taken to agree and settle change and variations, the quantum of and duration over which cash retention is held by clients and the reluctance of clients to pay for the significant cost and risk of mobilising a major project and paying for the offsite manufacture of components.

All parties involved in the sector must collaborate to provide a more modern approach to payments and providing adequate working capital to avoid the current 'hand to mouth' trickle down of liquidity.

In terms of payment data, the UK businesses reported their second set of payments practice data on 29 April 2019, for the six months to 31 March 2019. The average age of payments for the Group entities submitted was 54 days with 44 per cent paid over terms. This compares with average payments of 53 days and 47 per cent paid over terms for the previous six months.

The Group's main UK trading entity; Laing O'Rourke Construction Limited reported average days of 52 with 45 per cent paid over terms, for the six months to 31 March 2019.

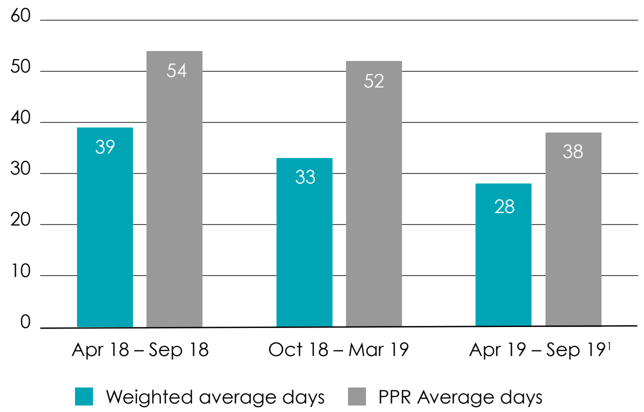
Laing O'Rourke became a signatory of the Prompt Payment Code (PPC) in 2013. It was reported in the media in April 2019 that Laing O'Rourke together with a number of other tier one contractors was temporarily suspended from the PPC for failing to pay 95 per cent of invoices within 60 days. Laing O'Rourke submitted an action plan to the PPC in May 2019 to improve payments performance. Payment practice reporting data, which the PPC relies on, does not differentiate between SMEs and large businesses, does not take account of transaction value and includes transactions that are in genuine query. Laing O'Rourke has mutually agreed terms of 60 days (or greater) with its larger material suppliers, which skews the data given the volume of transactions going through these material suppliers.

Laing O'Rourke remains committed to improving its payments performance and delivering on the actions submitted to the PPC in May 2019.

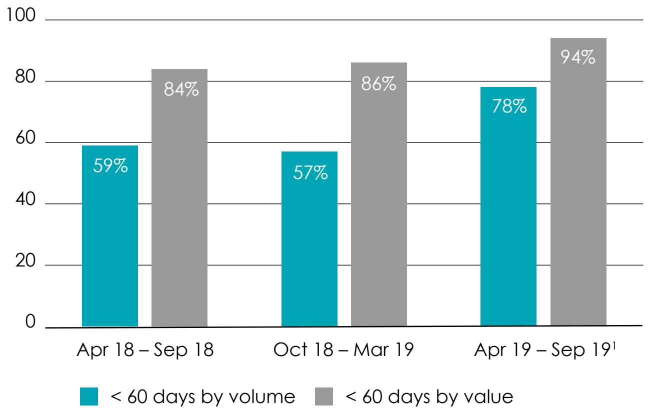
The graphs below show Laing O'Rourke Construction Limited's payment performance for the 18 months to 30 September 2019.

The first graph shows the trend of improving average payment days. The second and third graphs show the improving percentage of invoices paid within 60 days. Graph Two includes performance for payment to all suppliers and subcontractors whereas Graph Three shows performance for payments excluding payments to large companies.

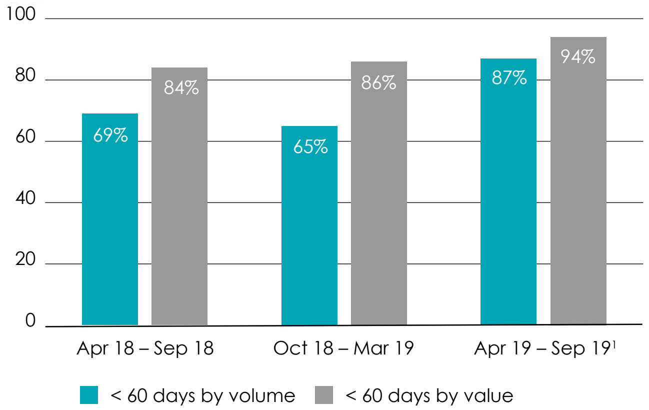
Graph One: Average days (weighted average and volume)



Graph Two: All suppliers and subcontractors, % invoices paid under 60 days by volume and value



Graph Three: Payment performance excluding large companies by volume and value



1. September 2019 based on forecast data