

2015 half-year results presentation

12 August 2015



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Agenda

Summary and
operational
overview

Financial
report

Build to Last
update

Leo Quinn

Phil Harrison

Leo Quinn

Encouraging progress

- Revenue/order book stable – landmark contract wins
- First half losses reflect historic challenges – as per July update
- Build to Last gaining momentum – net cash £260m
- One of sector's strongest balance sheets – anchored by £1.25bn Investments portfolio
- Favourable market trends – strong pipeline of opportunities

Phase One: 24-month “self-help” plan

Operational update – Construction Services

	HY 2015	HY 2014	FY 2014
Order book (£bn)	7.7	7.6	7.9
Revenue (£m)	3,177	3,186	6,597
Loss from operations (£m)	(209)	(51)	(209)

Customers

- Landmark contract successes:
 - US\$582m Bergstrom Expressway project in Austin, Texas
 - £607m UK smart motorway package
 - £460m UK Hinkley nuclear new build electrical package
 - Four significant frameworks appointments worth up to £3.5bn
 - Strong and diverse pipeline of opportunities

Performance

- Order book stable – UK reduction with more selective bidding; offset by US & Middle East
- Revenues steady – declines of 2% in UK and 1% in US offset by a 37% increase in Far East
- £152m profit shortfall due to historic issues and risk-based provisions – UK £100m, US £32m, Middle East £20m
- 31% of historic projects already at practical or financial completion, as at June 2015
- Improved working capital performance
- Embedding improved systems and processes across business
- Simplified UK structure and upgraded leadership

Businesses stabilising, historic issues being addressed

Operational update – Support Services

	HY 2015	HY 2014	FY 2014
Order book (£bn)	3.6	4.0	3.5
Revenue (£m)	615	615	1,273
Profit from operations (£m)	4	22	50

Customers

- Continued contract success:
 - £265m 5-year Thames Water asset solutions contract
 - £22m 20-year operations & maintenance contract for Gwynt y Môr
 - £40m 3-year SSE overhead line infrastructure contract
 - Nemo Interconnector, UK to Belgium – first win in an expanding market
- Good medium-term opportunities in Power market

Performance

- Order book grew 2% in first half, due to growth in Water
- Revenue stable at £615m – growth in Power offset by decline in Water
- Profit lower than previous year; HY 2015 impacted by increase in future loss provisions on small number of contracts; prior year profits benefited from strong performance in Transport and Power
- Management layer removed; Power, Gas and Water, UK Rail now report directly to Group CEO
- Expected margins should be in the range of 3% to 5%

Simplified and re-aligned with customers

Operational update – Infrastructure Investments

	HY 2015	HY 2014	FY 2014
Pre-disposal operating profit (£m)	14	21	34
Gain on disposals (£m)	84	51	93
Profit from operations (£m)	98	72	127
Directors' valuation of portfolio (£m)	1,252	1,051	1,300
No. of projects included in DV	71	63	66

Customers

- Preferred bidder on 6 new equity projects: University of Sussex, Irish Primary Care PPP, Welland Waste Wood, & 3 US private rental housing developments
- Achieved financial close on 7 projects in the period¹
- Continuing strong demand in secondary market supporting valuations

Performance

- Continuing to invest, £64m invested in first half; including Gwynt y Môr OFTO, Welland waste wood and the University of Texas Dallas
- Portfolio increased to 71 assets (FY 2014: 66)
- Asset sales generated £112m and £37m received in distributions, with disposal gains of £84m
 - Edinburgh Royal Infirmary - £72m
 - Thanet Offshore Transmission (80%) - £40m
- Disposal prices in line with FY 2014 Directors' valuation
- Continuing strong performance underpinned by Group capability

Strategic anchor for transformation

¹ 4 of these financial closes were also appointed preferred bidder in the period

PHIL HARRISON
Chief Financial Officer

Headline numbers

	HY 2015	HY 2014 ¹	FY 2014
Order book*	£11.3bn	£11.6bn	£11.4bn
Revenue*	£4,085m	£4,072m	£8,440m
(Loss)/profit from operations*	£(120)m	£29m	£(58)m
Pre-tax (loss)/profit – underlying*	£(130)m	£15m	£(80)m
Pre-tax (loss)/profit – total continuing	£(150)m	£(58)m	£(304)m
Underlying EPS*	(19.4)p	3.2p	(11.5)p
Directors' valuation	£1,252m	£1,051m	£1,300m
Net cash/(debt)≠	£260m	£(387)m	£219m
Interim dividend	-	5.6p	5.6p

*from continuing operations, before non-underlying items

≠from continuing operations, excluding non-recourse net debt

¹Re-presented to classify Parsons Brinckerhoff as a discontinued operation; Rail Germany results from discontinued operations into non-underlying within continuing operations; and to show certain legacy Engineering Services contracts as non-underlying items

¹Restated to correct prior period error relating to the recognition of contract losses in the UK construction business

Order book

£bn	HY 2015	FY 2014	HY 2014
Construction Services			
US	3.8	3.7	3.5
UK	2.0	2.3	2.0
Rail	0.2	0.3	0.3
Middle East	0.4	0.3	0.3
Far East	1.3	1.3	1.5
	7.7	7.9	7.6
Support Services			
Transport	1.8	1.9	2.2
Power	1.2	1.3	1.4
Water	0.6	0.3	0.4
	3.6	3.5	4.0
Total	11.3	11.4	11.6

From continuing operations, before non-underlying items

Order book visibility - £bn	HY 2015	HY 2014
0-6 months	3.3	3.1
6-18 months	4.1	3.5
18-30 months	1.3	2.0
30 months+	2.6	3.0
Total	11.3	11.6

- UK order book declined as expected
- A number of landmark wins and frameworks not included in order book at HY 2015
- UK order book expected to increase in second half

Construction Services segment

£m	HY 2015		HY 2014	
	Revenue	PFO	Revenue	PFO
US	1,483	(41)	1,498	12
UK	1,117	(145)	1,136	(59)
Rail UK & International	104	(4)	185	(7)
Overseas joint ventures				
- Middle East*	89	(25)	87	4
- Far East	384	6	280	(1)
	3,177	(209)	3,186	(51)
Non-underlying – ES	25	(1)	35	(33)
Non-underlying – other	81	(7)	118	(32)
Total	3,283	(217)	3,339	(116)

* Includes Sakti which operates in the Far East

■ Revenue

- Flat versus HY 2014
- Declines of 2% in UK and 1% in US offset by a 37% increase in Far East
- In UK, growth in Major Projects more than offset by reduction in Regional

■ Profit From Operations

- Historic issues in the UK, US and Middle East resulted in profit shortfalls
- New standardised financial processes are being established to drive transparency, simplification and control within the Group

Support Services segment

£m	HY 2015	HY 2014	FY 2014
Revenue			
Transport	314	314	655
Power	254	234	465
Water	47	67	153
	615	615	1,273
Profit From Operations	4	22	50

From continuing operations, before non-underlying items

■ Revenue

- Revenue flat versus HY 2014
- Strong growth in Power offset by an expected decline in Water
- Power benefited from increased volumes for National Grid
- Water fell as work completed on the AMP5 regulatory cycle and new AMP6 contracts mobilised

■ Profit From Operations

- Profits had been expected to be lower than the prior year
- HY 2015 profits impacted by future loss provisions on a small number of contracts
- HY 2014 benefited from Beaulieu Denny contribution, positive contract settlements and a strong performance in Transport

Infrastructure Investments

£m	HY 2015			HY 2014		
	Group	JVs & assoc [∞]	Total	Group	JVs & assoc [∞]	Total
UK [†]	1	14	15	1	29	30
North America	8	4	12	7	3	10
Infrastructure Fund	-	1	1	(1)	-	(1)
Infrastructure	-	-	-	(1)	-	(1)
Bidding costs and overheads	(14)	-	(14)	(17)	-	(17)
Pre-disposals operating profit	(5)	19	14	(11)	32	21
Gain on disposals	84	-	84	51	-	51
Investments underlying operating profit	79	19	98	40	32	72
<i>Subordinated debt interest income</i>			13			13
<i>Infrastructure concessions' net interest</i>			3			3
Investments pre-tax result			114			88
Investments post-tax result			109			84

[∞] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

[†] Including Singapore and Australia
Before non-underlying items

■ Profit From Operations

- Pre-disposals operating profit fell by £7m
 - 2014 included £15m gain from movements in the fair value of PPP financial assets
 - This was partially offset by good performance in US and lower bidding costs in 2015
- Disposals of Edinburgh Royal Infirmary and Thanet OFTO (80%)
- Subordinated debt interest stable in the period

Directors' valuation of Investments portfolio

£m			HY 2015	FY 2014
Opening valuation			1,300	766
Cash invested incl. BBIP investment		64		
Cash received – distributions	(37)			
– disposals	(112)	(149)		
Net cash received			(85)	(178)
New project wins			28	26
Disposal gains against Directors' valuation			-	58
Changes to the valuation methodology and assumptions			-	531
Unwind of discount on NPV			47	78
Inflation, FX, other cash receipts & operational gains/losses			(38)	19
Closing valuation			1,252	1,300
Number of projects included in portfolio			71	66

Non-underlying items

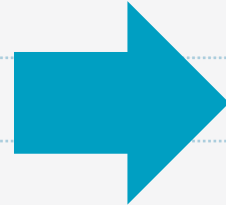
£m	Continuing	
Trading		
- ES	(1)	
- Rail Germany	(2)	(3)
Amortisation		
- Amortisation of acquired intangibles	(5)	(5)
Restructuring & reorganisation		
- Build to Last transformation costs	(12)	
- Shared service centre	(5)	
- Other	(11)	(28)
Disposals & other		
- Gain on disposal of SSL	15	
- Pension fund settlement gain	1	16
Non-underlying items before tax		(20)

Construction profit impacts

£m		HY 2015
UK construction	Project-specific provisions due to schedule slippages and operational deterioration on a number of historic contracts, and risk-based provisions across the entire UK portfolio	(100)
US construction	Project-specific provisions against a number of historic multi-family housing unit projects, two federal healthcare projects, a small number of other contracts awarded primarily in 2013 or earlier, and risk-based provisions across the US portfolio	(32)
Middle East construction	Increased project-specific provisions for additional cost overruns and claim recovery shortfalls, predominately in the mechanical and electrical engineering business	(20)
Total		(152)

UK historic contracts impacting profit and cash

Historic contracts as at June 2015	Total	Expected practical or financial completion	
		By end of 2016	2017+
Continuing	61		
Practical completion	18	>90%	<10%
Financial completion	10		
	89		

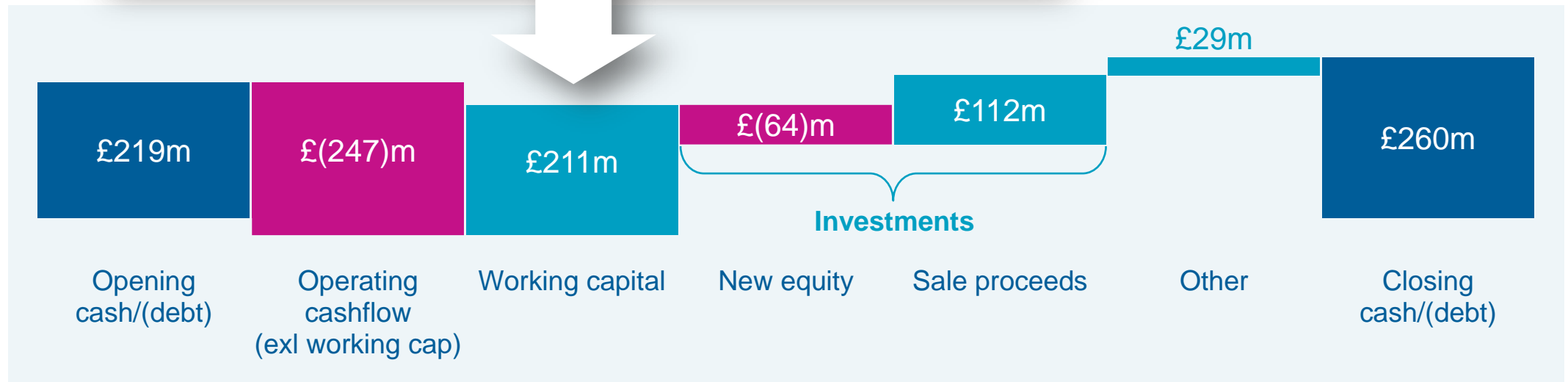


- 31% of projects already at practical or financial completion, as at June 2015
- >90% of projects expected to be at practical or financial completion by end of 2016

Half-year cash flow



- HY 2015: £41m inflow
 - HY 2014: £321m outflow
- = £362m improvement



Movement on Group net debt (excluding non-recourse net debt)

Group balance sheet

£m	HY 2015	FY 2014	HY 2014
Goodwill and intangible assets	1,059	1,042	1,213
Working capital	(965)	(731)	(362)
Net cash/(debt) (excluding infrastructure concessions)	260	219	(387)
PPP financial assets	365	559	287
Infrastructure concessions – non-recourse net debt	(327)	(445)	(224)
Retirement benefit liabilities	(231)	(128)	(397)
Net assets held for sale	-	13	26
Other assets & liabilities	690	698	791
Equity holders' funds	851	1,227	947

LEO QUINN

Group Chief Executive

Build to Last – key metrics



- Cash & EBIT
- Employee engagement & retention
- Customer satisfaction
- Zero Harm

Restoring Balfour Beatty to strength

Build to Last – LEAN – £200m cash in: £100m cost out

Phase One target: £200m cash in

- 'Cash is our Compass' campaign Group-wide
- £41m cash inflow (H1 2014: £321m cash outflow) - £362m improvement
- Better working capital and contract discipline
- Management incentives aligned to Group cash performance
- Oracle R12 system upgrade will enhance UK cash transparency

Phase One target: £100m cost out

- £25m annualised savings realised to date
- Frontline capability preserved
- UK enabling functions integrated under single leaders – Finance, IT, Legal, HR, MarComms and Health & Safety
- Optimising supply chain: £3bn spend in UK, \$4bn in US
- Programme office tracking & validating savings

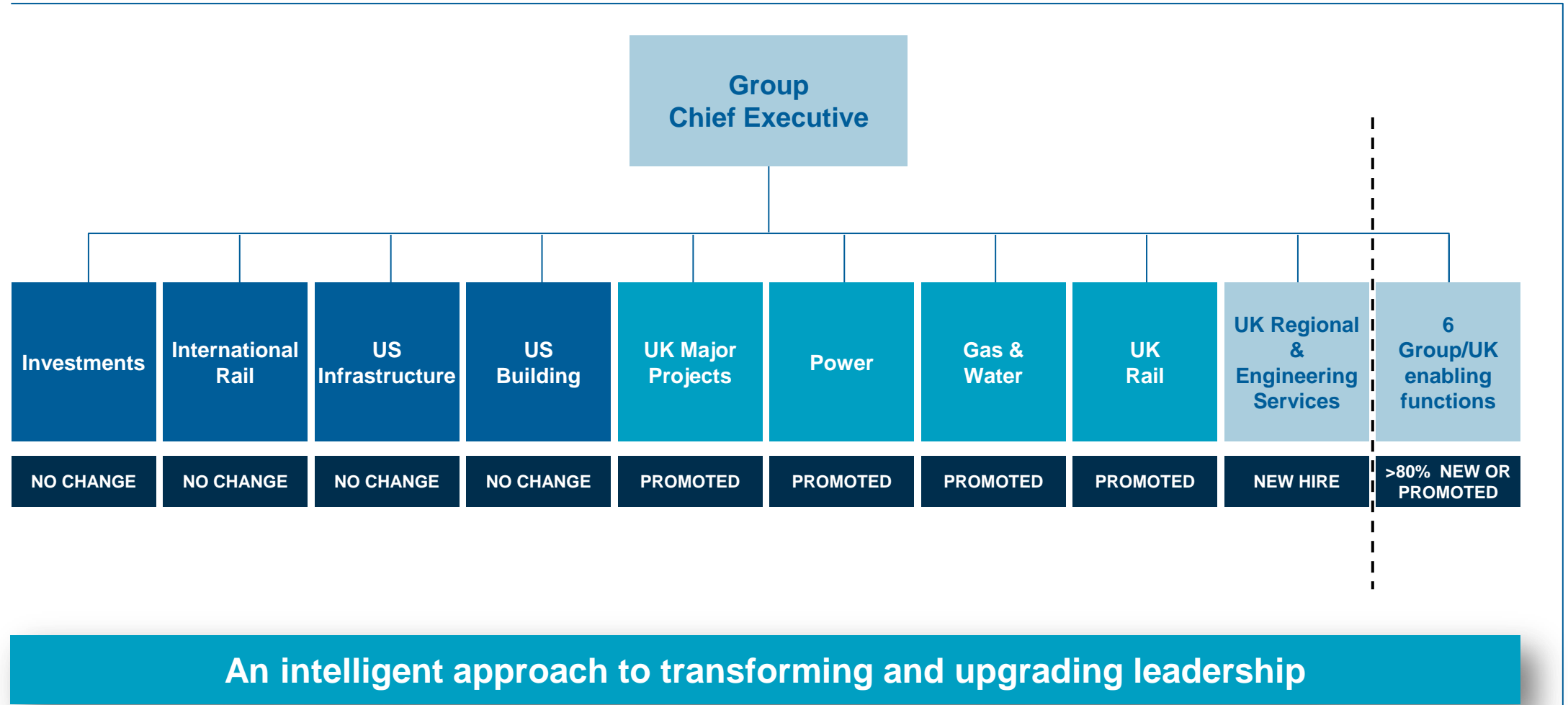
Build to Last gaining momentum

Build to Last – EXPERT

- Upgrading leadership and organisational structure
 - 5 new Board members in 2015 – including construction experience
 - Executive management upgraded – sector experience safeguarded
- Investment to upskill our people
 - Investing in engineering and project management capability for our customers
 - Establishing UK wide leadership forum for project management
 - Retooling sales capability
 - ‘My Contribution’ – engaging all employees in driving improvements
- New reward and recognition approach
 - New Group CEO awards for key contributors

Nurturing our competitive expertise

Build to Last – EXPERT

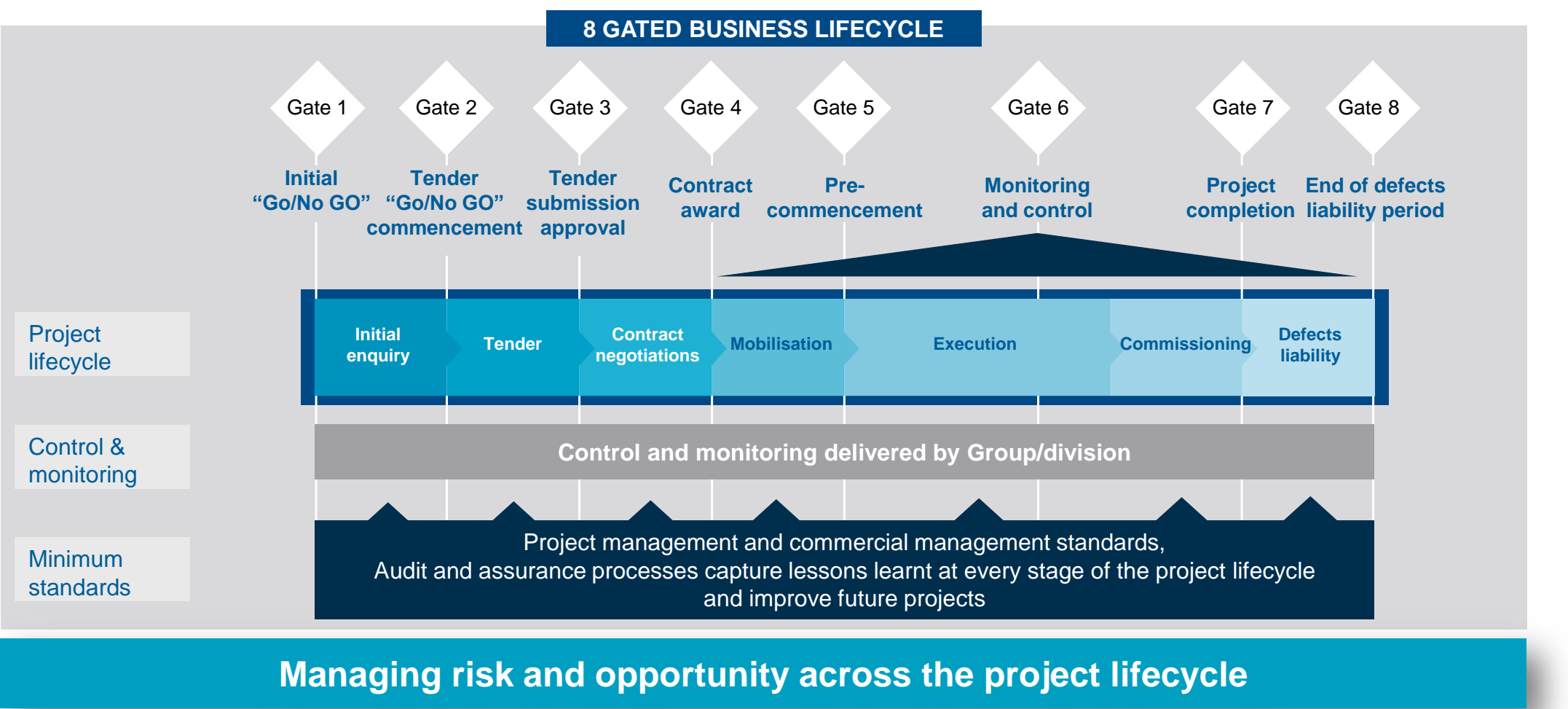


Build to Last – TRUSTED

- One of sector's strongest balance sheets and brands
- Maintaining customer confidence
- Continuing to win landmark contracts
- Robust financial systems and processes
- Keeping our promises - doing what we say we will do (DWWSWWD)
- Disciplined business like contracting

“A culture of no surprises”

Build to Last – TRUSTED



Build to Last – SAFE

- New Board Committee for ‘Group Safety and Sustainability’
- New UK-wide Health & Safety director appointed
- Safety ‘observations’ increased by 100% across UK construction sites (indicator of staff engagement)
- LTIR showing early signs of improvement but still work in progress
- Group composition enables transfer of best in class practice (Power, Rail)
- Consistent constant vigilance, always

Zero Harm – our licence to operate

Build to Last – short interval control

Weekly	Build to Last updates 'Pulse' leadership calls Tender Committee
Monthly	Financial reviews Contract reviews
Quarterly	JV board meetings My Contribution reviews Build to Last deep dive
Half-yearly	Leadership conference IT strategy review Talent review Risk reviews



Embedding transparency and accountability

** diagram is for illustrative purposes only*

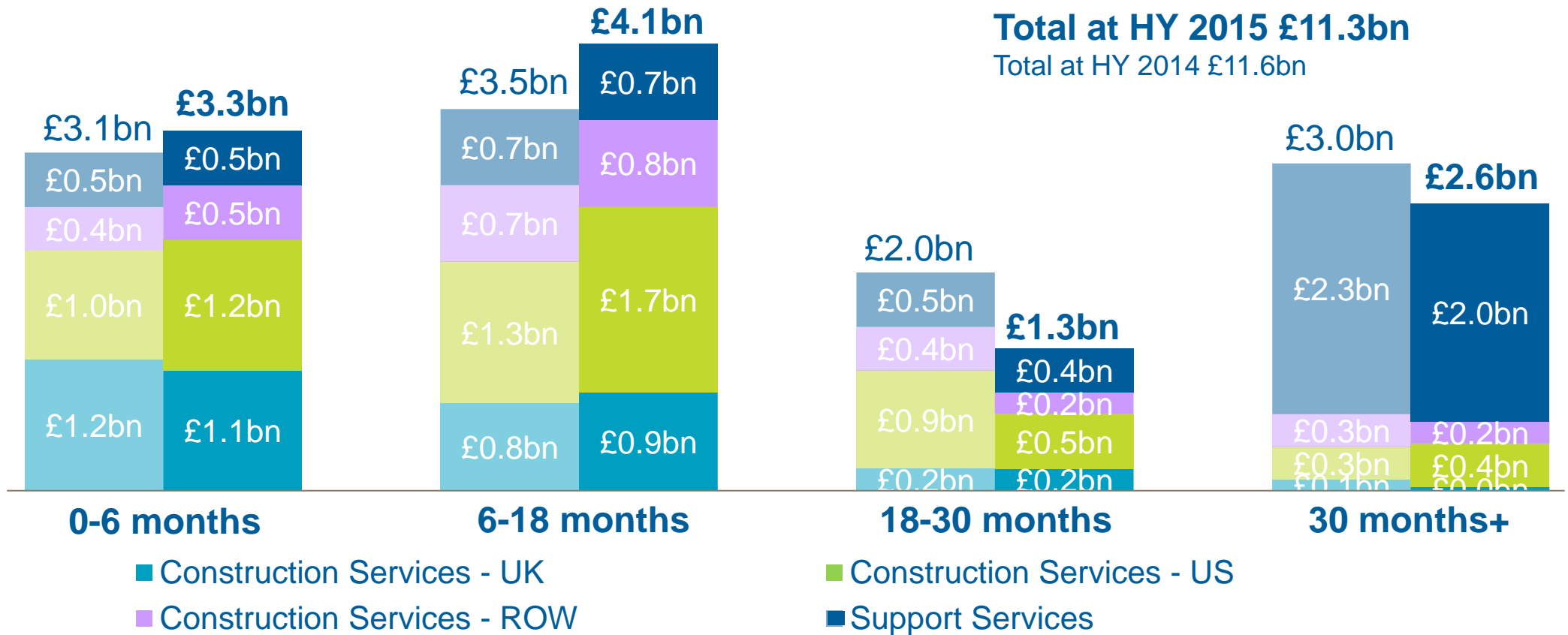
Clear momentum

- Revenue/order book stable – landmark contract wins
- First-half losses reflect historic challenges – as per July update
- Build to Last already delivering – net cash £260m
- One of sector's strongest balance sheets – anchored by £1.25bn Investments portfolio, in which we continue to invest
- Favourable market trends – managed through gated process with improving margins and terms

Substantive progress in first six months

APPENDIX















Order book position compared with a year ago



*In each series group, left-hand column represents the order book as at June 2014, and the right-hand column as at June 2015
From continuing operations, before non-underlying items*

Infrastructure Investments

Successful period for closes and preferred bidders

	Achieved financial close 	Appointed preferred bidder 	Total	Remain preferred bidder 	HY 2015 projects
University/student accommodation			3		8
OFTO			1		3
Healthcare			1		6
Military housing			-		21
Transport			-		13
Housing			3		5
Energy			1		4
Schools			-		8
Other			-		3
Total	7⁽¹⁾	2	9	3	71

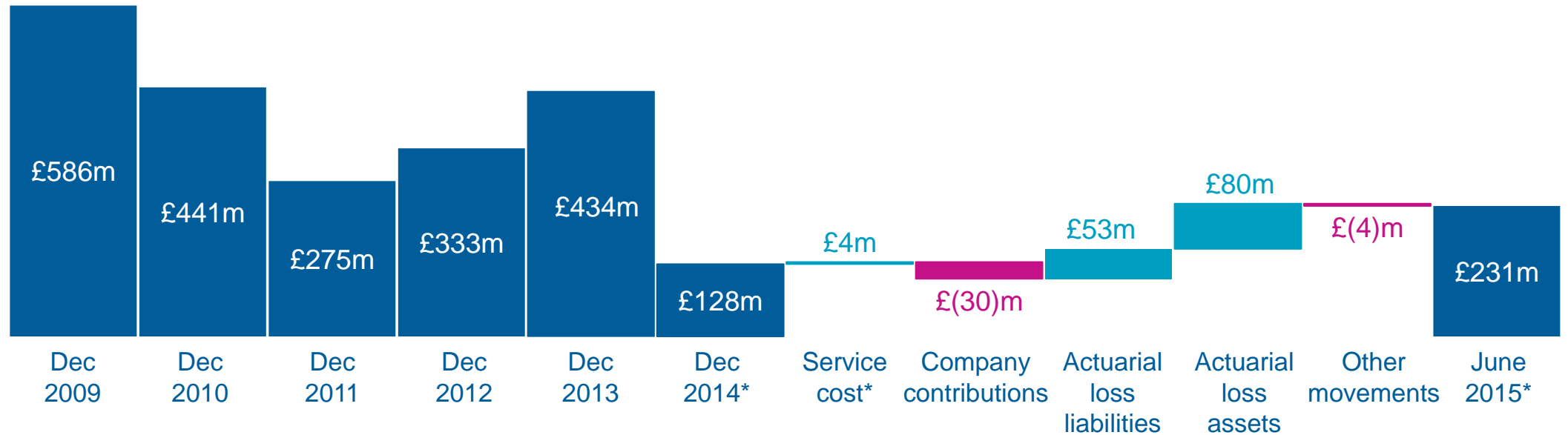
⁽¹⁾ 4 of these financial closes were also appointed preferred bidder in 2015

Cash used in operating activities

£m	HY 2015	HY 2014 ¹
Loss from operations	(139)	(42)
Share of JV profit	(8)	(41)
Depreciation	17	23
Pension deficit payments	(28)	(25)
Gain on disposal of infrastructure concessions	(84)	(51)
Working capital	211	(195)
Other	(5)	45
Cash used in operating activities	(36)	(286)
Income taxes received/(paid)	6	(8)
Cash used in operating activities after tax	(30)	(294)
Net disposal proceeds		
- Infrastructure Investments	94	34
- Subsidiaries and other joint ventures	23	(14)
Cash used in operating activities plus disposal proceeds	87	(274)

¹ Restated to correct prior period error relating to the recognition of contract losses in the UK construction business

Pensions – balance sheet movement



2.15%	2.05%	1.9%	1.5%	1.05%	0.65%	Real discount rate	0.5%
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Since Dec 2009 deficit funding of £391m

* From continuing operations

Net interest cost

£m		HY 2015	HY 2014
Subordinated debt interest receivable		13	13
Interest on PPP financial assets	12		
Interest on non-recourse borrowings	(9)	3	3
Net finance costs – pension schemes		(2)	(8)
Other interest receivable	1		
Other interest payable	(7)	(6)	(6)
US private placement		(6)	(5)
Convertible bonds			
- finance cost	(3)		
- accretion	(3)	(6)	(6)
Preference shares			
- finance cost	(5)		
- accretion	(1)	(6)	(6)
Net interest cost		(10)	(15)

From continuing operations

Underlying effective tax rate

FY 2014		HY 2015			HY 2014				
Tax rate (%)	£m	PBT	Tax	PAT	Tax rate (%)	PBT	Tax	PAT	Tax rate (%)
1%	Group, excluding JVs & associates	(138)	(4)	(142)	(3)%	(27)	7	(20)	26%
21%	JVs & associates	13	(5)	8	38%	52	(10)	42	19%
(20)%	Aggregate	(125)	(9)	(134)	(7)%	25	(3)	22	12%
	Less JV tax	(5)				(10)			
	Pre-tax profit	(130)				15			

From continuing operations, before non-underlying items