Balfour Beatty

News Release

29 September 2014

BALFOUR BEATTY TRADING UPDATE

SUMMARY

Balfour Beatty, the international infrastructure group, today announces a further profit shortfall of approximately £75 million in Construction Services UK. The Group also announces that it has appointed KPMG to undertake a detailed independent review of the contract portfolio within Construction Services UK. The review will focus on commercial controls, on 'cost to complete' and contract value forecasting and reporting at project level. KPMG are expected to report back to the Board by the end of the year. Trading across the rest of the Group remains in line with expectations.

The process to appoint a new Group CEO is now at an advanced stage, and an announcement will be made in due course. Steve Marshall has indicated to the Board that, following the handover of his interim executive responsibilities to a new Group CEO and the identification of a new non-executive Chairman, he intends to step down from the Board.

The Circular to Shareholders for the sale of Parsons Brinckerhoff is expected to be issued in October. It is anticipated that up to £200 million will be returned to shareholders in the form of a share buyback programme, subject to the disposal completing. The buyback programme will be implemented following the announcement of the Group's 2014 preliminary results, subject to the Board's assessment of the trading environment at the time.

The final dividend for 2014 will also be reviewed in the light of the Parsons Brinckerhoff disposal with a view to establishing a level of future dividend cover appropriate for the Group's re-shaped portfolio of businesses.

CONSTRUCTION SERVICES UK & KPMG REVIEW

Internal reviews conducted in recent days have forecast a further profit shortfall due to additional losses and write-downs across a number of contracts, estimated at £75 million in aggregate, and reducing 2014 results.

The £75 million profit reduction is split across Construction Services UK in the following way: £30 million within Engineering Services, £20 million within large London area building projects, £15 million within Regional construction, and £10 million within Major Infrastructure Projects.

In Engineering Services the £30 million write-down relates mainly to previously highlighted problem contracts in London. We have continued to experience programme slippage, resource and skills shortages, poor operational delivery and cost inflation pressures. The total number of problem contracts has increased to 25, from the 21 previously disclosed. Of these, 19 are due to reach operational completion in 2014. As we previously indicated, we have now withdrawn from bidding any contracts for other Tier 1 contractors in London, as well as withdrawing from bidding any new contracts in the South West region. The business will continue to pursue contractual entitlements in relation to the problem contracts and to recover monies that we believe are fairly due.

The large London area building projects were transferred into Regional construction earlier in the year. With a number of these projects approaching completion, some have experienced further programme slippage and increases in cost to complete estimates. The new management team are working hard to resolve these issues, whilst recognising increased risk.

In Regional construction we have experienced continued difficulties in the South West and Wales regions. These were previously highlighted as risks and we continue to take steps to reduce our exposure in these regions, where we are in consultation with our employees in regards to office closures. Meanwhile in Scotland, the North and the Midlands we continue to trade in line with expectations. Across the business we continue to be more selective in the work we bid, and have seen a reduction in our expected order intake and forecast margin as a result.

In Major Infrastructure Projects we have experienced cost forecast revisions on a small number of projects where we have experienced a change of scope, but where the commercial resolution is yet to be concluded. The business continues to win high quality work in target sectors - transport, renewable energy, nuclear decommissioning and new build, together with special complex projects.

Work to refocus Construction Services UK and improve efficiency is continuing. We have eliminated a layer of the management structure as part of business simplification. Importantly, the business will be transferred onto a common IT platform by the end of 2014. We continue to target an increase in the average contract size in Regional construction, with bidding activity being tightly controlled across the division.

Given these additional issues, the Board has appointed KPMG to conduct a detailed independent review of the contract portfolio within Construction Services UK. The review will focus on commercial controls, on 'cost to complete' and contract value forecasting and reporting at project level. KPMG are expected to report back to the Board by the end of the year. This expands on the work already underway by KPMG to review the contract control and management reporting disciplines within Engineering Services and parts of the Regional business.

OVERALL TRADING

Apart from Construction Services UK, current trading and full year expectations remain broadly in line with the Board's expectations. In Infrastructure Investments, disposal proceeds from already identified PPP Investments are expected to generate outperformance against the revised Director's Valuation, arising in part from highly favourable market conditions. The US Construction order book continues to grow, reinforcing our medium term outlook for the business.

The Group's financial position remains robust, taking into account the expected disposal of Parsons Brinckerhoff and the inherent value within the Investments portfolio. Our expectation for average net debt for the year is approximately £500 million, excluding the benefit of proceeds from the Parsons Brinckerhoff disposal.

LOOKING FORWARD

The Group's ongoing priorities remain as set out in recent public statements:

- To complete the sale of Parsons Brinckerhoff, which is in the best interests of shareholders
- To conclude the appointment of a new Group CEO as soon as possible
- To simplify and refocus the Group on its core Anglo-American markets
- To return Construction Services UK back to peer group margins by reshaping the business and taking advantage of progressive market recovery whilst closing out legacy projects
- To de-risk the Group through a robust approach to risk assessment and bidding returns, including completing the withdrawal from non-core territories such as European Rail
- To leverage near-term order book growth opportunities in other markets, including in North America and in UK Support Services, and via Far East and Middle East JV's
- To maximise returns in our strong Investments business across all territories in which we operate.

Steve Marshall, Executive Chairman of Balfour Beatty said:
"This latest trading statement is extremely disappointing; the Board has appointed KPMG to undertake a thorough review across the contract portfolio within Construction Services UK. There has been inconsistent operational delivery across some parts of the UK construction business and that is unacceptable. Restoring consistency will take time and it has our full focus. The Board is committed to delivering shareholder value and we are progressing against the priorities we set out over the last few months, including the sale of Parsons Brinckerhoff and the announcement shortly of a new CEO. The Group's other operating divisions are trading as expected and the Board continues to believe the standalone strategy will deliver value in the medium term."

ENDS

Conference Call

Balfour Beatty will host a conference call for investors and analysts today, Monday 29 September 2014, at 8:00 am (UK time). To join the call, please dial +44 (0)20 3427 1902 and quote confirmation code 7539532. A recording of the call and its transcript will be posted on our website approximately 24 hours after the event.

Analyst/investor enquiries:
Anoop Kang
Tel. +44 (0)20 7216 6913
anoop.kang@balfourbeatty.com

Media enquiries:
Dominic Cheetham
Tel. +44 (0)20 7963 4235
dominic.cheetham@balfourbeatty.com

Liz Morley
Maitland
Tel. +44 (0)20 7379 5151
emorley@maitland.co.uk

Notes to editors:

Balfour Beatty (www.balfourbeatty.com) is an international infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets; from finance and development, through design and project management to construction and maintenance.

Our businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients principally in the UK and the USA, with developing businesses in Australia, Canada, the Middle East, South Africa and South East Asia.

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors focus on infrastructure - transportation (roads, rail and aviation), power and energy, water, and complex buildings (both commercial and social).

Balfour Beatty employs 40,000 people around the world.