



2015 full-year results presentation

15th March 2016

Balfour Beatty

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Leo Quinn
Group Chief Executive

Agenda



**Summary and
operational
overview**

Leo Quinn



**Financial
report**

Phil Harrison



**Build to Last
update**

Leo Quinn

Strong progress on transformation

- Phase One: 12 months into 24-month self-help
- Stabilising order book; one of sector's strongest balance sheets
- Building governance and control
- Employees responding – cash performance
- Legacy challenges – expect >90% to complete in 2016
- Favourable market backdrop



Expect to restore dividend in August 2016

Phil Harrison

Group Chief Financial Officer

Headline numbers

	H1 2015	H2 2015	2015	2014
Revenue*	£4,085m	£4,150m	£8,235m	£8,440m
(Loss) / profit from operations*	£(120)m	£14m	£(106)m	£(58)m
Pre-tax (loss) / profit – underlying*	£(130)m	£7m	£(123)m	£(80)m
Pre-tax (loss) / profit – total continuing	£(150)m	£(49)m	£(199)m	£(304)m
Underlying EPS*	(19.4)p	(0.3)p	(19.7)p	(11.5)p
Dividends per share	-	-	-	5.6p

	June 2015	Dec 2015	Dec 2014
Order book*	£11.3bn	£11.0bn	£11.4bn
Directors' valuation	£1,252m	£1,244m	£1,300m
Net cash [‡]	£260m	£163m	£219m

* from continuing operations, before non-underlying items

‡ excluding infrastructure concessions (non-recourse)

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Order book

£bn	FY 2015	HY 2015	FY 2014
Construction Services			
US	4.1	3.8	3.7
UK	1.9	2.0	2.3
Rail	0.2	0.2	0.3
Middle East*	0.5	0.4	0.3
Far East	1.2	1.3	1.3
	7.9	7.7	7.9
Support Services			
Transport	1.5	1.8	1.9
Utilities	1.6	1.8	1.6
	3.1	3.6	3.5
Total	11.0	11.3	11.4

£bn	FY 2015	FY 2014
0-12 months	5.6	5.6
12-24 months	2.5	2.5
24 months+	2.9	3.3
Total	11.0	11.4

Construction stable at £7.9bn

Quality of UK order book improving

Support Services continued to execute on long-term contracts

Good pipeline of projects Awarded But Not Contracted (ABNC) not yet included in order book

* includes Sakti which operates in Indonesia
From continuing operations

Construction Services

£m	2015		2014	
	Revenue	PFO	Revenue	PFO
US	3,097	(22)	2,996	29
UK	2,024	(187)	2,350	(229)
Rail UK & International	274	(5)	368	(6)
Overseas joint ventures				
Middle East*	197	(34)	197	(15)
Far East	796	19	686	12
	6,388	(229)	6,597	(209)
Non-underlying – ES	30	(8)	62	(88)
Non-underlying – other	179	(43)	291	(94)
Total	6,597	(280)	6,950	(391)

* includes Sakti which operates in Indonesia
From continuing operations

Performance

Revenue

UK impacted by active decision to tighten bid governance; biggest declines in previous problem regions

Growth in US and Far East

Profit from operations

Losses reflect historic issues in UK, US & Middle East

New systems & controls are improving financial visibility

Support Services

£m	2015	2014
Revenue		
Transport	628	655
Utilities	631	618
	1,259	1,273
Profit from operations	24	50

Performance

Revenue

Revenue stable

Utilities: Water AMP6 contracts mobilising, but fall in Power overhead line volumes

Transport: lower volumes from local authority road schemes

Profit from operations

Improved performance in second half 2015 impacted by lower volumes in overhead lines and lower lifecycle cost benefits
Prior year boosted by one-off gains in Transport

Before non-underlying items

Infrastructure Investments

£m	2015	2014
UK†	33	42
North America	25	21
Infrastructure Fund	3	-
Infrastructure	-	(2)
Bidding costs and overheads	(24)	(27)
Pre-disposals operating profit	37	34
Gain on disposals	95	93
Investments underlying operating profit	132	127
<i>Subordinated debt interest income</i>	<i>24</i>	<i>29</i>
<i>Infrastructure concessions' net interest</i>	<i>5</i>	<i>6</i>
Investments pre-tax result	161	162

† including Singapore and Australia
Before non-underlying items

Performance

Investment of £102m, including:

- Two student accommodation projects, three US private rental housing developments

Portfolio increased to 71 assets (2014: 66)

£82m received in distributions








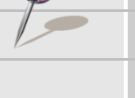




Asset sales generated £145m, with disposal gains of £95m

- Two OFTOs, one school, one hospital

Disposal proceeds in line with FY 2014 Directors' valuation

Infrastructure Investments

Successful period for closes and preferred bidders

	Achieved financial close 	Appointed preferred bidder 	Total	Remain preferred bidder 	FY 15 projects	FY 14 projects
University / student accommodation			4		9	6
OFTO			2		3	3
Healthcare			1		6	6
Military housing			-		21	21
Transport			-		13	13
Housing			3		5	2
Waste & biomass			1		4	3
Schools			-		7	8
Other			-		3	4
Total	7⁽¹⁾	4	11	3	71	66

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

Directors' valuation of Investments portfolio

£m			FY 2015	HY 2015	FY 2014
Opening valuation			1,300	1,300	766
Cash invested incl. BBIP investment		102			
Cash received – distributions	(82)				
– disposals	(145)	(227)			
	Net cash received		(125)	(85)	(178)
New project wins			45	28	26
Disposal gains against Directors' valuation			-	-	58
Changes to the valuation methodology and assumptions			-	-	531
Unwind of discount on NPV			93	47	78
Operational performance & FX movements			(69)	(38)	19
Closing valuation			1,244	1,252	1,300
Number of projects included in portfolio			71	71	66

Non-underlying items

£m		Continuing
Trading		
- ES	(8)	
- Rail Germany	(2)	(10)
Impairment & amortisation		
- Amortisation of acquired intangibles	(10)	
- Impairment of IT intangible asset	(17)	
- Other impairments	(15)	(42)
Restructuring & reorganisation		
- Build to Last transformation costs	(23)	
- Shared service centre	(8)	
- Restructuring of Rail Germany & Heery	(9)	(40)
Disposals & other		
- Gain on disposal of SSL	16	
- Other	-	16
Non-underlying items before tax		(76)

UK historic contracts impacting profit and cash

FY 2015: 60% of projects at practical or financial completion

HY 2015: 31% of projects at practical or financial completion

Historic contracts as at	FY 2015	HY 2015
Continuing	36	61
Practical completion	24	18
Financial completion	29	10
Total	89	89

**Expected
practical or
financial
completion**
by end of 2016

>90%

Full-year cash flow

£m	2015	2014
Operating cash flows [†]	(247)	(272)
Working capital	178	(31)
Infrastructure Investments		
- Disposal proceeds	145	159
- New investments	(102)	(73)
Pension deficit payments	(66)	(49)
Parsons Brinckerhoff net proceeds	25	723
Other	11	(172)
Cash (outflow) / inflow	(56)	285
Cash outflow excl. PB net proceeds	(81)	(438)
Opening net cash / (debt)*	219	(66)
Movements in the year	(56)	285
Closing net cash*	163	219

[†] before pension deficit payments

* excluding infrastructure concessions (non-recourse)

including provisions

£m	2015	2014
Working capital		
Inventory & WIP	27	(30)
Construction contract balances [#]	313	(43)
Trade & other payables	(236)	85
Trade & other receivables	74	(43)
Working capital movements	178	(31)

Year end	2015	2014
Debtor days	42	59
Creditor days	91	100

**£357m year on year cash improvement,
excluding proceeds from Parsons Brinckerhoff**

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Group balance sheet

£m	2015	2014
Goodwill and intangible assets	1,066	1,042
Working capital*	(890)	(731)
Net cash / (debt) (excluding infrastructure concessions)	163	219
Investments in joint ventures and associates	671	759
PPP financial assets	402	559
Infrastructure concessions – non-recourse net debt	(365)	(445)
Retirement benefit liabilities	(146)	(128)
Other assets & liabilities	(75)	(48)
Equity holders' funds	826	1,227

* £159m movement is different to the cashflow movement of £178m (per previous slide) due to disposals in the year and foreign exchange.

Leo Quinn
Group Chief Executive

Build to Last – Transforming Balfour Beatty



Simplifying the business

- Streamlining structures

Strengthening leadership

- Clear direction

Improving governance and processes

- Short interval control

Changing the culture

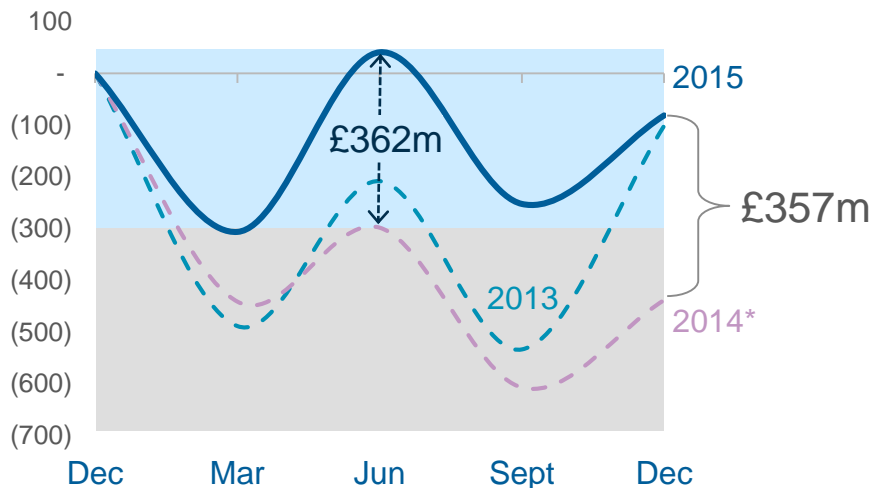
- Measurement and transparency

12 months into 24-month self-help plan

Build to Last – LEAN

Phase One target: £200m cash in

Cumulative annual cash flow



* Adjusting for the sale of Parsons Brinckerhoff

Cash is our Compass:

- £357m of cash flow improvement
- Improved working capital £178m
- Capex / software spend down £31m
- Dividend suspension £96m

Investment portfolio

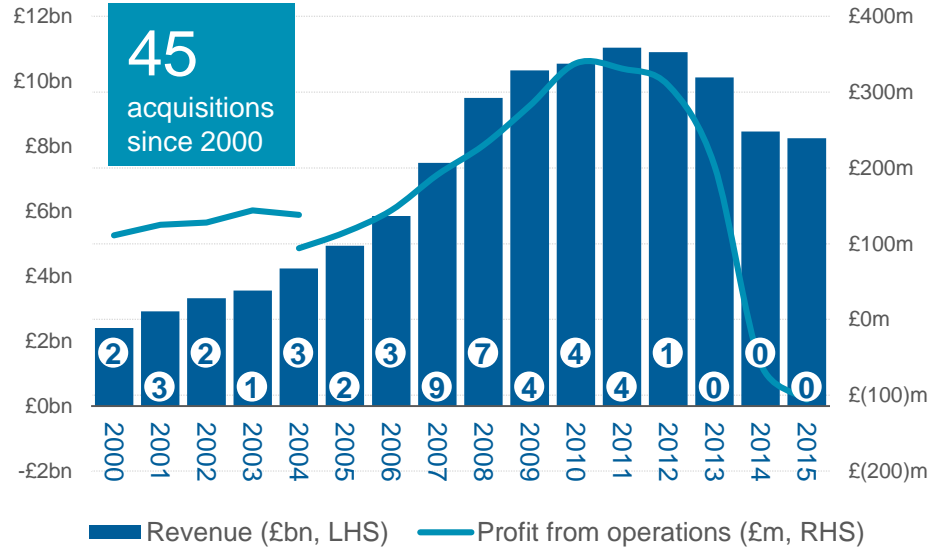
- £145m cash generated by sale of mature assets at Directors' valuation
- £102m invested in new opportunities

Delivering balance sheet strength

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Build to Last – LEAN

Phase One target: £100m cost out



Simplifying the business structure and leaning-out core processes

- Removal of management layers
- Terminate loss-makers / non-core
- Continue to drive integration contracts

Reducing costs

- £60m annualised savings in 2015
 - £39m back office and support functions
 - £13m IT costs
 - £8m indirect procurement

Investing in procurement capability

Extracting benefits of integration

Build to Last – EXPERT

Recruit

- Five new Board members including construction experience
- Two-thirds of Executive Committee new to business or new in post
- 156 apprentices and 216 graduates hired in UK and US

Train

- Investing in competencies – project management, engineering, estimating
- First Group Leadership Conference held – 300 attendees
- ‘The 5% Club’: 4.6% (721) of UK employees Apprentices, Graduates or Sponsored Students

Retain

- First Group-wide employee survey: 67% participation
- New London offices – improved working environment
- Recognition – 344 included in first year of Group CEO awards

Investing in market leading capability

Build to Last – TRUSTED

Balance sheet strength

- Refinanced debt facilities
- £163m net cash at December 2015
- £1.24bn Investments portfolio

Disciplined, business-like contracting

- 60% of problem contracts at practical or financial completion
- 8-gated lifecycle applied across the business improving governance
- Project dashboard delivers improved transparency

Maintaining customer confidence

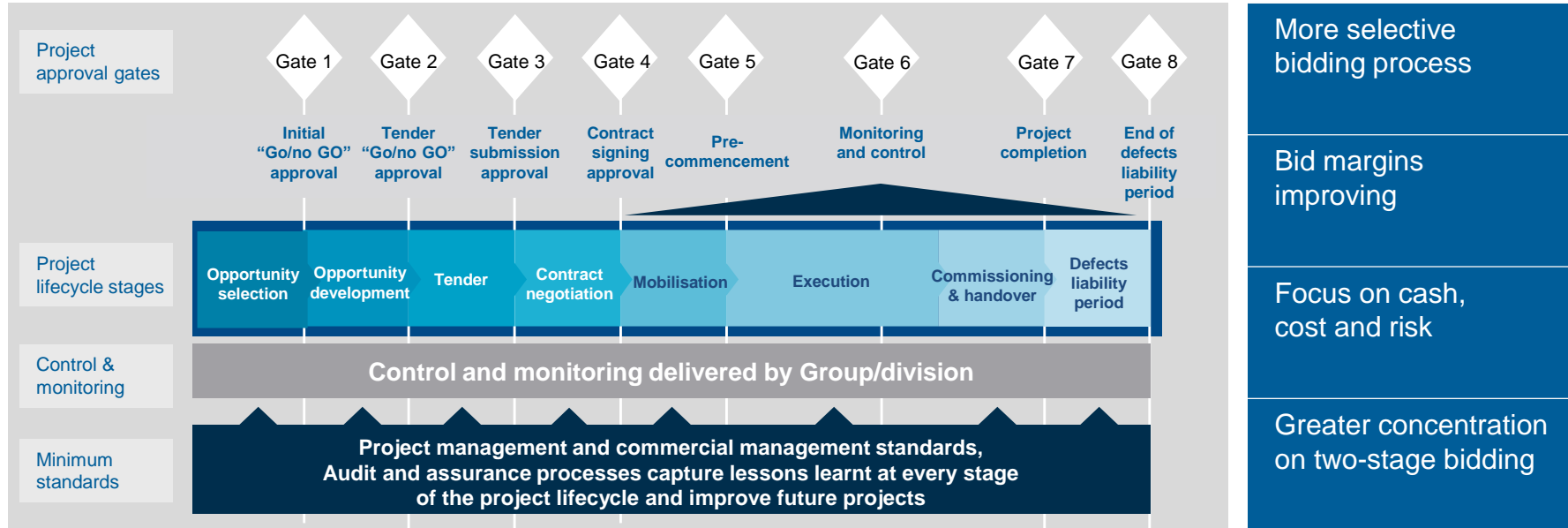
- Customer satisfaction increased from 77% to 82%
- Continuing to win landmark contracts: Bergstrom Expressway, Texas; Warwickshire Highways Maintenance Contract; Irish Primary Care PPP; Thames Tideway Tunnel; M5,M6,M4 Smart Motorways Package
- Strong pipeline of Awarded But Not Contracted

Rapidly improving control and execution

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Build to Last – TRUSTED

Gated business lifecycle



Managing risk and opportunity across the project lifecycle

US Construction – new tender examples in 2015

Balfour Beatty Infrastructure Inc	Echo	GA 400	Bergstrom Expressway
Client evaluation drivers			
Price	100%	80%	70%
Technical score	n/a	20%	30%
Price			
Balfour Beatty bid value	US \$442m	US \$783m	US \$582m
Lowest bid	US \$415m	US \$460m	US \$473m
Technical score			
Balfour Beatty technical score	n/a	154pts	30pts
Low bidder technical score	n/a	143pts	11pts
Balfour Beatty bid ranking	LOST	LOST	WON

N.B. All project information is published and publicly available

Maintaining discipline on bid margin and risk

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Standardised project reports

NOT A REAL PROJECT (CRLR0032)
Report generated @ 14:28 on Sun 18 Mar 2018 by [redacted]

Identified Risks

Category	Value	Count
High	£0.3m	1
Medium	£0.3m	1
Low	£0.3m	1

Summary Results (£k)

	Dec-15	Jan-16	Feb-16
Value POC %	30%	34%	41%
Cost POC %	82%	80%	3%
Time POC %	33%	82%	-1%
Subcontract % Let	100%	100%	0%

Forecast Final Margin

Recognised Revenue

To Date Margin

Certified by Client

Cash Received

Percentage Completion

Value	84%
Cost	85%
Time	92%
SubCo (packages Let)	100%

Gate: 6 (Execution)

Risk Value: £7.7m (69%)

Risk Score: 13

Test	Explanation	Risk Factor	Risk Value	% of NVF
Missed Completion Date	Completion date in the past	0	-	0%
Excessive Working Capital	Receivables or A/R 11 WIP above 3 months of revenue	2	726,096	0%
Revenue Discount	Certification is outside 2.5% to 47.5% of value	4	599,325	0%
Project Stoppage	Completion date has slipped	0	-	0%
Excessive Future Date	Completion date in over 5 years time	0	-	0%
Unsettled Income	Unsettled income is included in the forecast	0	-	0%
Traded Margin	Traded margin greater than 50.0 % completion OR loss incurred	1	45,220	0%
Project Movements	Movement above £(250k) in cash or ECU margin	1	265,986	0%
Contract Dispute	Contract final date + 60% granted less than forecast end date	1	921,826	8%
Time and Value or Cost disconnect over 5%	Time and Value or Cost disconnect over 5%	1	506,126	4%
CTC per month is <5% higher than CTC	CTC per month is <5% higher than CTC	1	7,658,935	69%

Project Cash Balance

Total Forecast cost

Percentage Completion

Revolutionising project transparency

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Build to Last – SAFE






- Reinvigorated focus on Safety
 - New Group Safety and Sustainability Board Committee – met three times in 2015
 - Single UK function aligned to the business – enabling transfer of best-in-class practice
- Group employee opinion survey demonstrates staff believe Group has good attitude to safety
- Safety ‘observations’ increased by 100% across UK construction sites – indicator of staff engagement
- Group’s Lost Time Injury Rate* decreased to 0.24 (2014: 0.31)
- New UK sentencing guidelines may lead to significantly higher penalties for H&S breaches

Zero Harm – Our license to operate

** excluding international joint ventures*

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Market outlook

Positive outlook across core markets					
Market growth					
	UK Construction ~£60bn market	US Construction ~£80bn market	International JVs ~£13bn market	Support Services ~£20bn market	Investments ~£6bn market
	<ul style="list-style-type: none"> • Strong pipeline of major projects (Highways, HS2, Energy, Airports) • Tall buildings 	<ul style="list-style-type: none"> • New transportation bill in Infrastructure • Order book growth in Building 	<ul style="list-style-type: none"> • Strong residential market and civils pipeline in Hong Kong • Difficult environment in Middle East 	<ul style="list-style-type: none"> • Pick-up in medium term as regulatory periods bed in (Rail, Gas & Water, Power) • Power cabling & offshore 	<ul style="list-style-type: none"> • Pipeline of opportunities continues to expand
Higher quality projects	Specialist delivery capabilities becoming increasingly scarce Selective bidding to reduce risk, secure better terms and improve margins				

Favourable market conditions support future profitable growth

The Build to Last journey

- Today, halfway through 24-month self-help phase
- Immediate focus: deliver £200m cash in / £100m cost out targets
- Following 24 months: reach industry-standard margins
- Longer term: market-leading performance

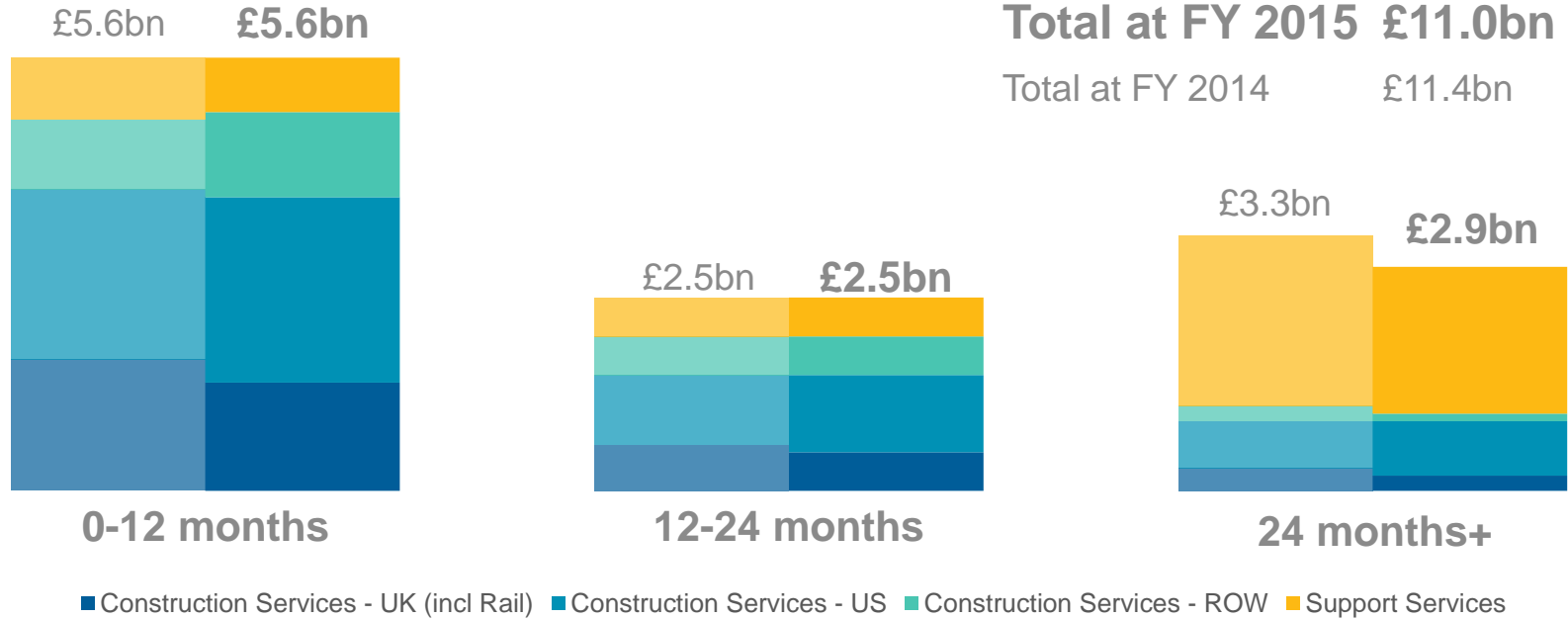


Building the foundations of profitable growth

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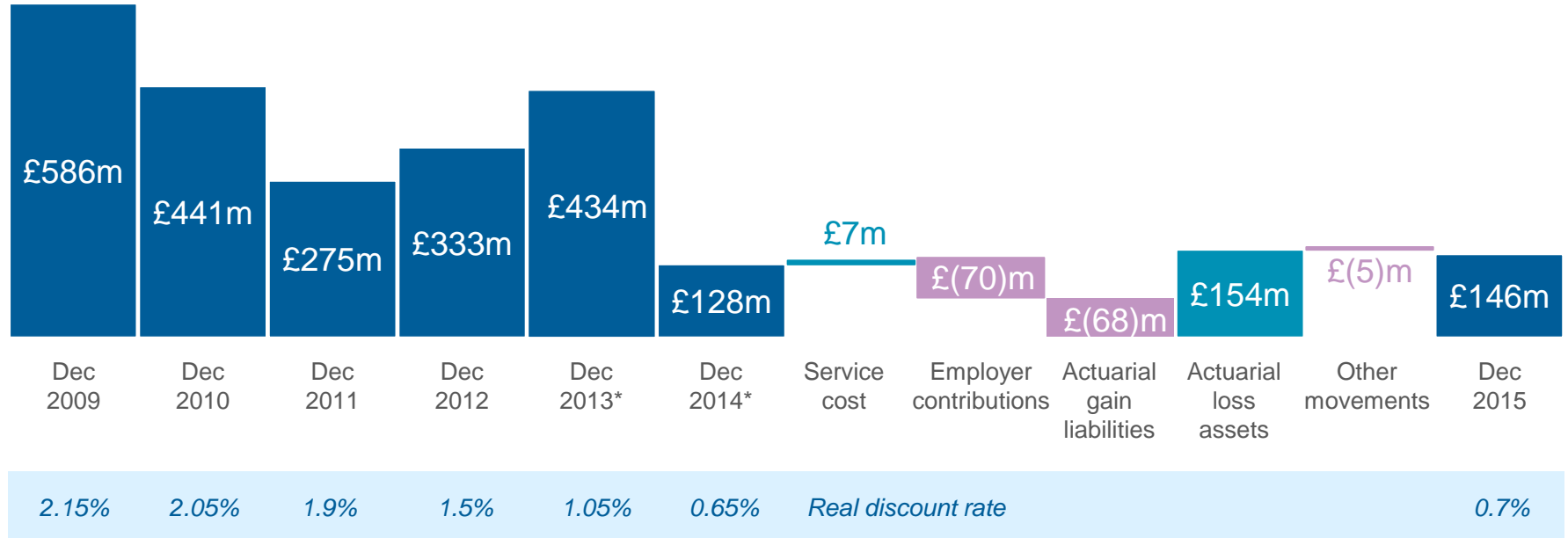
Appendix

Order book position compared with a year ago



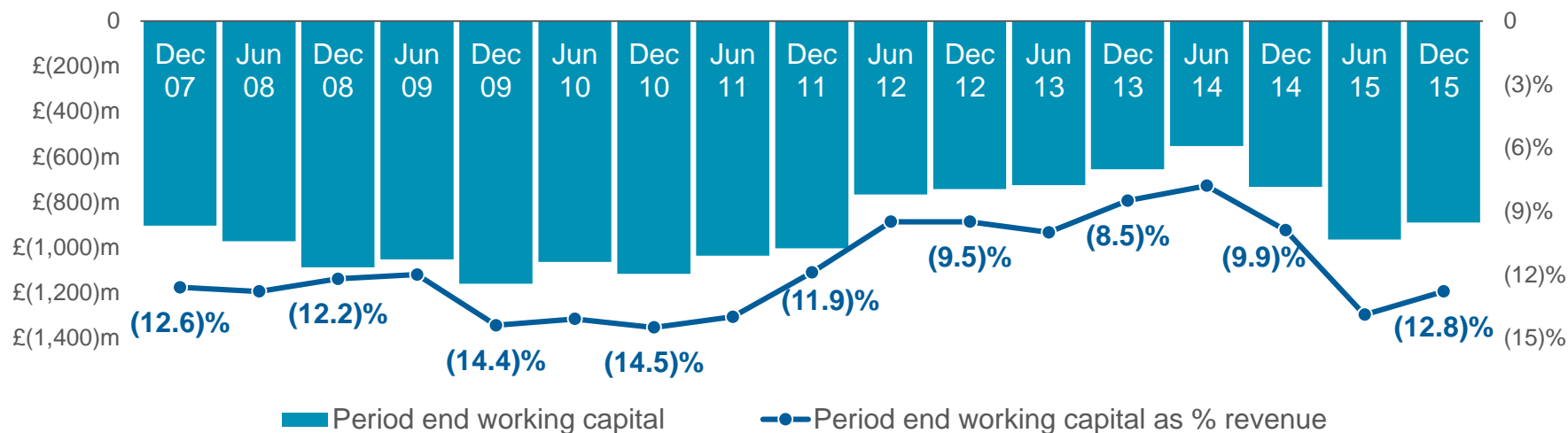
From continuing operations

Pensions – balance sheet movement



* from continuing operations

Working capital – Group

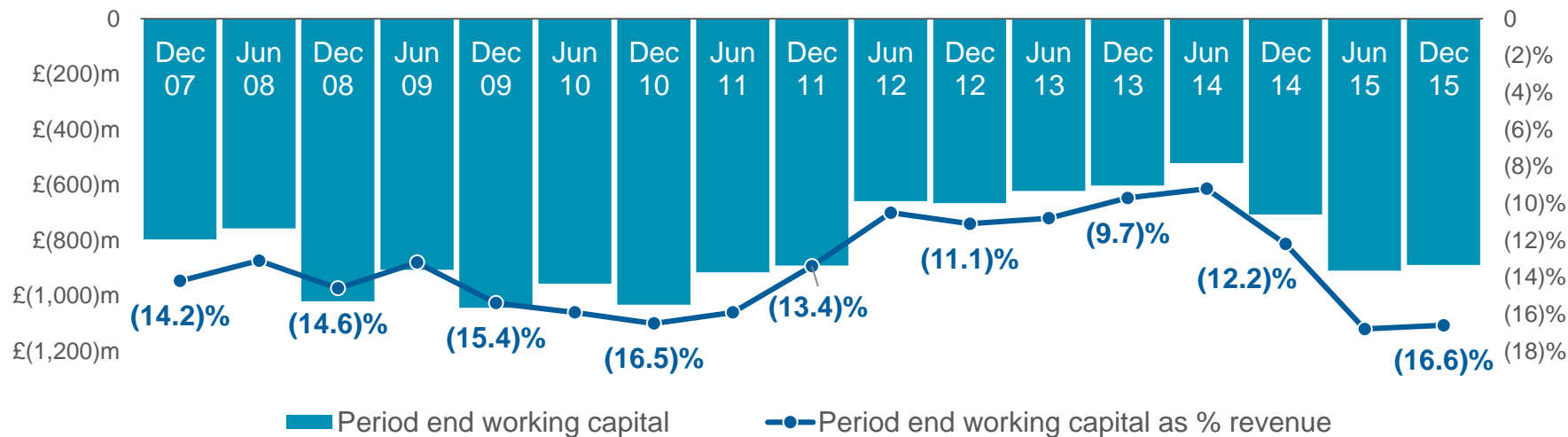


Year end

Debtor days	45	46	41	43	52	52	58	59	42
Creditor days	105	104	94	101	107	105	108	100	91

From continuing operations including non-underlying
 June 2014 and earlier figures restated to remove Professional Services and include Rail Germany

Working capital – Construction Services



From continuing operations including non-underlying
 June 2014 and earlier figures restated to remove Professional Services and include Rail Germany

Net interest cost

£m		2015	2014
Subordinated debt interest receivable	24		
Interest on PPP financial assets	24		
Interest on non-recourse borrowings	(19)	29	35
Net finance costs – pension schemes		(3)	(16)
Other interest receivable	4		
Other interest payable	(12)	(8)	(8)
US private placement		(11)	(10)
Convertible bonds			
- finance cost	(5)		
- accretion	(6)	(11)	(11)
Preference shares			
- finance cost	(11)		
- accretion	(2)	(13)	(13)
Net interest cost		(17)	(23)

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