



# 2017 half-year results presentation

16<sup>th</sup> August 2017

**Balfour Beatty**

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# Forward-looking statements

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Leo Quinn  
Group Chief Executive

# Build to Last



## Simplifying and refocussing the business

- Streamlining structures

## Strengthening leadership

- Clear direction

## Improving governance and processes

- Short interval control

## Transforming the culture

- Measurement and transparency

De-risking the future of Balfour Beatty

**Balfour Beatty**

# Build to Last



## Strong cash performance

- Average net cash £45m - no material investment disposals

## Underlying profit from operations £39m

- On track for full-year expectations

## Focused on chosen markets and capabilities

- Substantially de-risked portfolio; securing landmark infrastructure wins

## On track for industry-standard margins in second half 2018

- Confidence in the business leading to interim dividend increased by 33%

**Foundations laid for future profitable growth**

**Balfour Beatty**

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**Phil Harrison**  
Chief Financial Officer

# Financial Highlights



- Underlying profit from operations (PFO) £39m (2016: £11m); on track for full-year expectations
- Half-year net cash £161m, average net cash £45m - without material investment disposals
- Directors' valuation of Investments portfolio up 1% at £1.235bn
- Underlying revenue £4.2bn, up 8% (1% at CER)
- Interim dividend payment up 33% to 1.2p

**On track for full-year expectations**

# Headline numbers

	HY 2017	HY 2016 <sup>^</sup>
Revenue*	<b>£4,191m</b>	£3,883m
Profit from operations*	<b>£39m</b>	£11m
Pre-tax profit*	<b>£22m</b>	£13m
Post-tax profit*	<b>£22m</b>	£20m
Total underlying EPS	<b>3.3p</b>	2.0p
Dividends per share	<b>1.2p</b>	0.9p

	HY 2017	FY 2016 <sup>^</sup>
Order book*	<b>£11.4bn</b>	£12.4bn
Directors' valuation	<b>£1,235m</b>	£1,220m
Net cash <sup>‡</sup>	<b>£161m</b>	£173m

\* from continuing operations, before non-underlying items

‡ excluding infrastructure concessions (non-recourse) net debt

<sup>^</sup> re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations

**Improving financial metrics**

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# Underlying profit from operations

£m	HY 2017*	HY 2016**
US Construction	17	12
UK Construction#	2	(69)
Far East	5	3
<b>Construction Services</b>	<b>24</b>	<b>(54)</b>
<b>Support Services</b>	<b>16</b>	<b>11</b>
<b>Infrastructure Investments</b>	<b>15</b>	<b>70</b>
<b>Corporate</b>	<b>(16)</b>	<b>(16)</b>
<b>Total</b>	<b>39</b>	<b>11</b>

\* from continuing operations, before non-underlying items

# re-presented to include Rail Construction as part of UK Construction segment

^ re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations

All business segments reporting profit

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# Order book

£bn	HY 2017	FY 2016 <sup>^</sup>	HY 2016 <sup>^</sup>
<b>Construction Services</b>			
US	4.7	5.5	4.7
UK <sup>#</sup>	2.2	2.3	2.3
Far East	1.2	1.5	1.6
	<b>8.1</b>	9.3	8.6
<b>Support Services</b>			
Utilities	1.5	1.5	1.7
Transportation	1.8	1.6	1.6
	<b>3.3</b>	3.1	3.3
<b>Total</b>	<b>11.4</b>	12.4	11.9

<sup>#</sup> re-presented to include Rail Construction as part of UK Construction segment

<sup>^</sup> re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations

£bn	HY 2017	HY 2016 <sup>^</sup>
0-6 months	3.7	3.1
6-18 months	3.5	4.5
18-30 months	2.1	2.0
30 months+	2.1	2.3
<b>Total</b>	<b>11.4</b>	11.9

Order book declined 8% (6% at CER) from FY 2016

Continued disciplined and selective approach to bidding – higher margin and lower risk

In July 2017, Balfour Beatty joint venture awarded two HS2 contracts valued at c.£2.5 billion

**Maintaining disciplined and selective bidding**

**Balfour Beatty**

# Construction Services

£m	HY 2017			HY 2016 <sup>^</sup>		
	Revenue*	PFO*	PFO %*	Revenue*	PFO*	PFO %*
US	1,952	17	0.9%	1,632	12	0.7%
UK <sup>#</sup>	975	2	0.2%	991	(69)	(7.0)%
Far East	481	5	1.0%	413	3	0.7%
<b>Total</b>	<b>3,408</b>	<b>24</b>		<b>3,036</b>	<b>(54)</b>	

\* from continuing operations, before non-underlying items

# re-presented to include Rail Construction as part of UK Construction segment

<sup>^</sup> re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations

## Performance

### Revenue

Underlying revenue up 12%  
(CER 4%)

Increases in US and Far East

### Profit from operations

US : on track for full-year  
1-2% margin target range

UK : solid progress

Three key drivers

- (i) Managing historical contracts
- (ii) Reducing costs
- (iii) Improving order book

**On track for industry-standard margins in the second half of 2018**

# Support Services

£m	HY 2017	HY 2016
Revenue*		
Utilities	299	291
Transportation	220	257
<b>Total</b>	<b>519</b>	<b>548</b>
Profit from operations*	<b>16</b>	11
Operating margin* %	<b>3.1%</b>	2.0%

\* from continuing operations, before non-underlying items

## Performance

### Revenue

Revenues down 5%

Increase in utilities more than offset by decrease in transportation

### Profit from operations

3.1% PFO margin within industry-standard margin range

**Already within 3-5% industry-standard margin target range**

# Infrastructure Investments

£m	HY 2017	HY 2016
Pre-disposals operating profit	15	18
Profit on disposals	-	52
Underlying profit from operations	15	70
Subordinated debt interest income	12	15
Infrastructure concessions' net interest	(1)	-
Investments pre-tax result	26	85

## Performance

- Operating profit broadly in line with prior year  
No material disposals in H1 2017  
Group will continue to:
- (i) Sell investment assets timed to maximise shareholder value
  - (ii) Selectively invest in new opportunities

**No material disposals in first half of the year**

# Directors' valuation of Investments portfolio

£m			HY 2017	FY 2016
Opening valuation			1,220	1,244
Cash invested		24		
Cash received – distributions	(26)			
– disposals	(2)	→ (28)		
Net cash received			(4)	(188)
New project wins			2	6
Disposal gains against Directors' valuation			-	7
Unwind of discount on NPV			47	90
Operational performance			(5)	(31)
Foreign exchange			(25)	92
<b>Closing valuation</b>			<b>1,235</b>	1,220
Number of projects included in portfolio			69	69

**Directors' valuation £1.235bn**

# Half-year cash flow

£m	HY 2017	HY 2016
Operating cash flows	26	(71)
Working capital	(9)	1
Pension deficit payments	(10)	(29)
<b>Cash generated from/(used in) operations</b>	<b>7</b>	<b>(99)</b>
Infrastructure Investments		
Disposal proceeds	2	82
New investments	(24)	(45)
Other	3	14
<b>Cash inflow (outflow)</b>	<b>(12)</b>	<b>(48)</b>
Opening cash <sup>‡</sup>	173	163
Movements in the half-year period	(12)	(48)
<b>Closing cash<sup>‡</sup></b>	<b>161</b>	<b>115</b>

<sup>‡</sup> excluding infrastructure concessions net debt

£m	HY 2017	HY 2016
<b>Working capital</b>		
Inventory & WIP	(1)	14
Construction contract balances	(9)	(23)
Trade & other payables	49	(25)
Trade & other receivables	(55)	(10)
Provisions	7	45
<b>Working capital (outflow) inflow</b>	<b>(9)</b>	<b>1</b>

## Performance

Half-year net cash at £161m

£45m average net cash in the period

No material investment disposals

**Maintaining strong cash discipline**

**Balfour Beatty**

# Group balance sheet

£m	HY 2017	FY 2016
Goodwill and intangible assets	1,178	1,162
Working capital	(924)	(894)
Net cash (excluding infrastructure concessions)	161	173
Investments in joint ventures and associates	630	628
PPP financial assets	159	163
Infrastructure concessions – non-recourse net debt	(292)	(233)
Retirement benefit liabilities	(208)	(231)
Other assets and liabilities	56	(11)
<b>Equity holders' funds</b>	<b>760</b>	<b>757</b>

**Maintaining balance sheet strength**

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Leo Quinn  
Group Chief Executive

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# Build to Last

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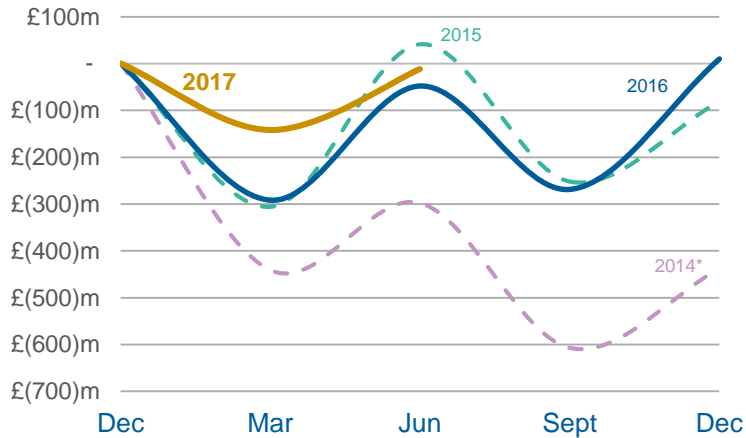


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Foundations laid for future profitable growth

# Build to Last – LEAN

## Cumulative annual total cash flow



\* adjusting for the sale of Parsons Brinckerhoff

## Cash is our Compass

- Net cash £161m (HY 2016: £115m) – achieved with no material investment disposals
- Average net cash £45m (HY 2016: average net debt £68m)
- Positive cash flow generated from operations
- Investing to optimise cost base

Establishing cash backed profits

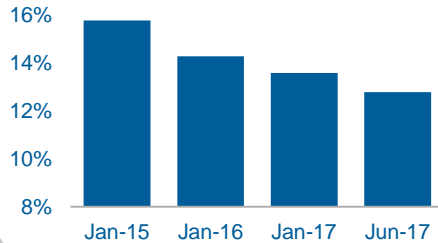
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# Build to Last – EXPERT



## UK Voluntary Attrition

(moving annual average)



Upgrading leadership

Implementing competency frameworks

Optimised resource allocation

Improved retention rates

Ongoing recruitment of emerging talent

Digitising construction

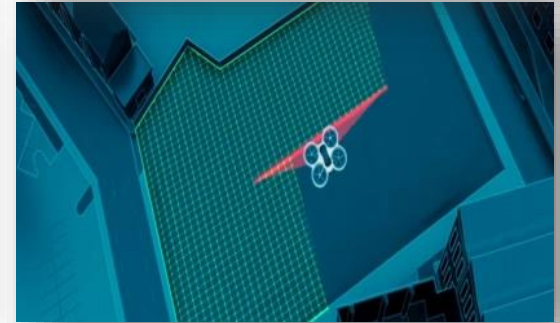
## Creating a great place to work

- Strong brand, Great leaders, Iconic projects
- Investing in building capabilities
  - Competency frameworks – assign to match risk and complexity
  - Investing in training to upskill
  - Collaborating relentlessly with design partners
- Retention improving
  - Attrition down by one-fifth since Jan 2015

Our future depends on world-class capabilities

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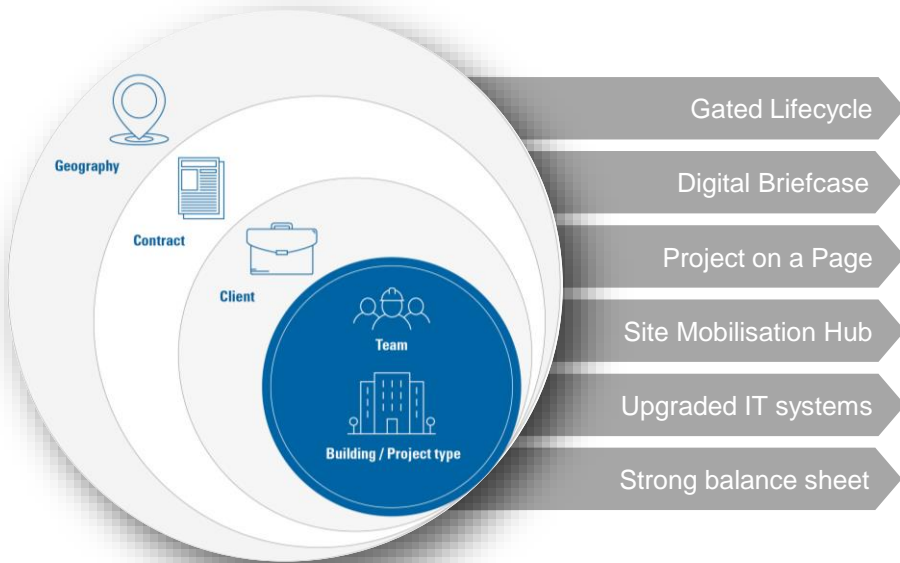
# Build to Last – EXPERT



Building a digital Balfour Beatty

# Build to Last – TRUSTED

## Circles of Risk



## Continuing to deliver on promises

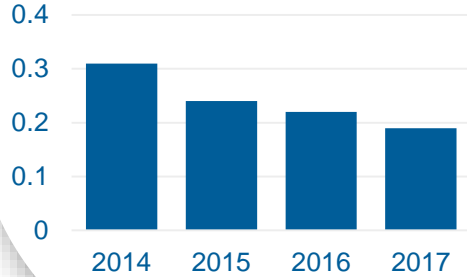
- Strong foundation established to better manage risk
- Continue to strengthen leadership team
- Selective bidding: winning new business with better margins and appropriate risk-reward
- Management refocussed as legacy projects wind down

Doing what we say we will do

**Balfour Beatty**

# Build to Last – SAFE

**Balfour Beatty Group  
Lost Time Injury Rate\***



Improving KPIs

Growth in observations

Making Safety Personal

Safety by Design

Supporting our Supply Chain

Sentencing guidelines

## Creating a safer culture

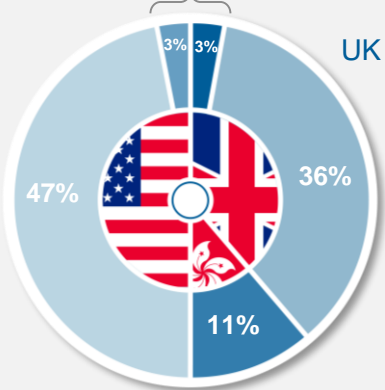
- Strong leadership of safety across organisation
- Group LTIR\* improved to 0.19 in 2017 (2014: 0.31)
- Observation rates continue to increase; sign of engagement
- Making Safety Personal – a pause for thought
- 25 by 2025 – reinforcing commitment to Safety by Design

\* excluding international joint ventures

Doing what we say we will do

**Balfour Beatty**

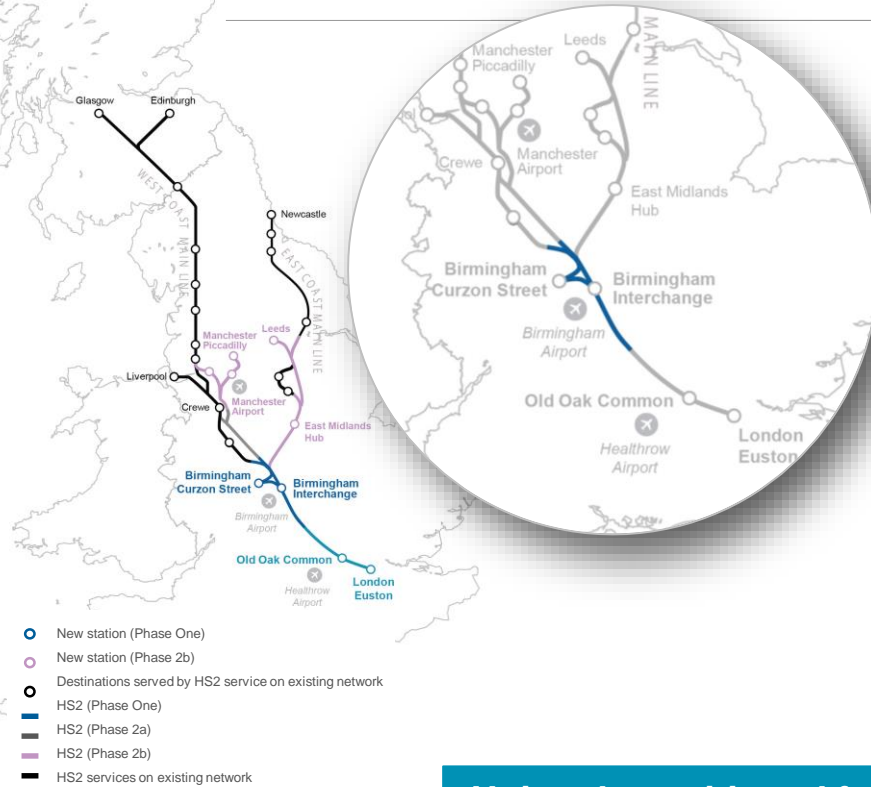
# Chosen markets outlook

Revenue by Geography	US Positive market	UK Positive infrastructure market	Far East Variable market
<p>Investments</p>  <p>A pie chart titled 'Investments' showing the distribution of revenue by geography. The largest segment is the US at 47%, followed by the UK at 36%, Far East at 11%, and two smaller segments of 3% each. The chart features flags for the US, UK, and Far East.</p>	<p>Fixing America's Surface Transportation (FAST) Act <b>\$305bn</b></p>	<p>HS2 <b>£56bn</b></p>	<p>HK International airport third runway <b>HK\$140bn</b></p>
<p>Nationwide transportation bonds <b>Over \$200bn</b></p>	<p>Hinkley Point C <b>£20bn</b></p>	<p>Central Kowloon Route <b>HK\$16bn</b></p>	
<p>Californian education bonds <b>\$35bn</b></p>	<p>Highways England <b>£15bn</b></p>	<p>Rail Circle Line, Singapore <b>SG\$1.5bn</b></p>	
<p>State Gasoline Tax <b>c.\$5bn</b></p>	<p>Heathrow third runway <b>£14bn</b></p>		

**Strength through diversified portfolio**



# UK Market driver: HS2 (High speed rail)



## Balfour Beatty VINCI JV successfully secured c.£2.5bn of HS2 Phase One Lots N1 & N2

Lot N1, c.£1.32 billion – Long Itchington Wood Green tunnel to the Delta Junction/Birmingham Spur

- Tunnelling
- Cuttings, embankments and viaducts
- Highway diversions

Lot N2, c.£1.15 billion – the Delta Junction to the West Coast Main Line tie-in

- Viaducts crossing
- Cuttings, earthworks and embankments

Uniquely positioned for a decade of opportunity

**Balfour Beatty**

# UK Market driver: HS2 future opportunities

	Contract Description	Total opportunity	Detail	Balfour Beatty Expertise			
				Civils	Rail	Power	M&E
Phase 1 Stations & Systems	Stations Construction <ul style="list-style-type: none"> <li>• Old Oak Common Station</li> <li>• Euston Station</li> <li>• Birmingham Interchange Station</li> <li>• Curzon Street Station</li> </ul>	approx. £4.2bn	Award expected in 2018-2020	✓			✓
	Rail Systems <ul style="list-style-type: none"> <li>• Track</li> <li>• Catenary</li> <li>• Signalling</li> </ul>	approx. £2.7bn	Award expected in 2019	✓	✓	✓	✓
Phase 2a	Birmingham to Crewe <ul style="list-style-type: none"> <li>• All lots</li> </ul>	approx. £3.7bn	Award expected in 2019	✓	✓	✓	✓
Phase 2b	Manchester and Leeds <ul style="list-style-type: none"> <li>• All lots</li> </ul>	approx. £24.8bn	Award expected in 2019	✓	✓	✓	✓

**HS2 presents £35.4bn of future market opportunities**

# Build to Last outlook



## Phase One (2015-16)

- Targets achieved: solid foundations for sustainable, profitable growth

## Phase Two (2017-18)

- Earnings-based businesses: reach industry-standard margins
  - UK Construction: 2%-3%
  - US Construction: 1%-2%
  - Support Services: 3%-5%
- Asset-based business: portfolio managed to maximise value

## Phase Three (2019+)

- Market-leading strengths and performance

On track for industry-standard margins in the second half of 2018

# Build to Last



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- Average net cash £45m - no material investment disposals

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- Substantially de-risked portfolio; securing landmark infrastructure wins

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- Confidence in the business leading to interim dividend increased by 33%

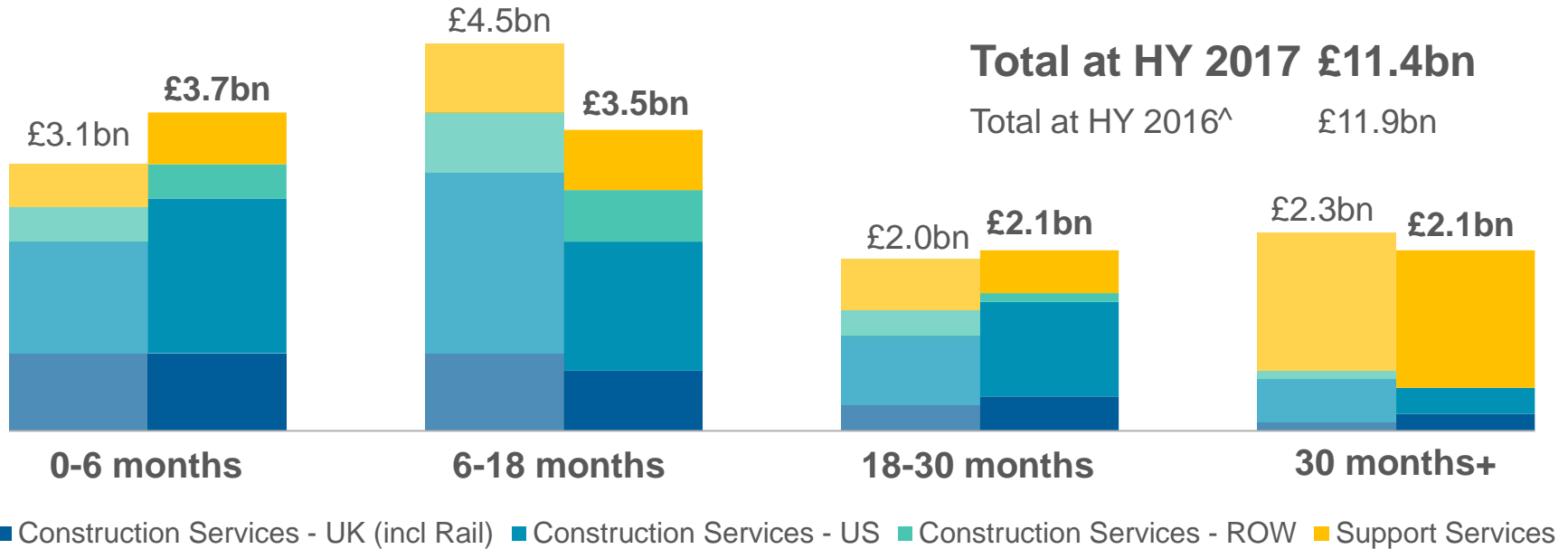
**Foundations laid for future profitable growth**

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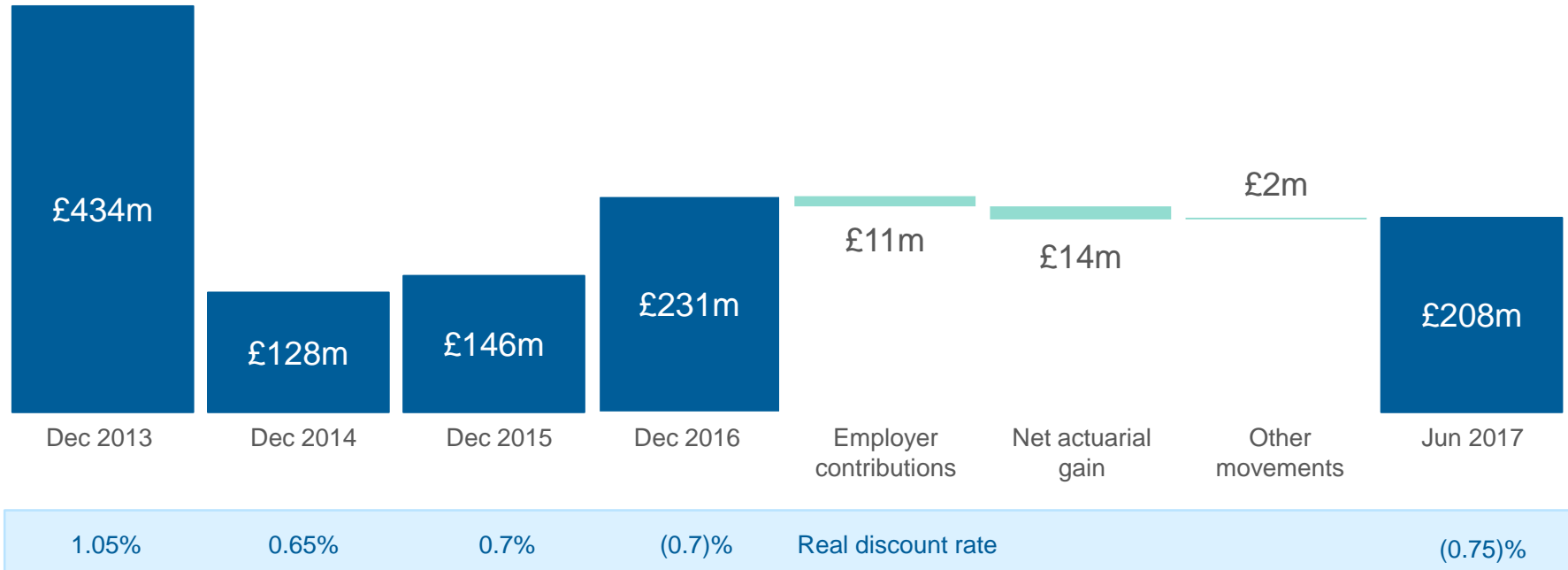
# Appendix

# Order book position HY17 v HY16<sup>^</sup>

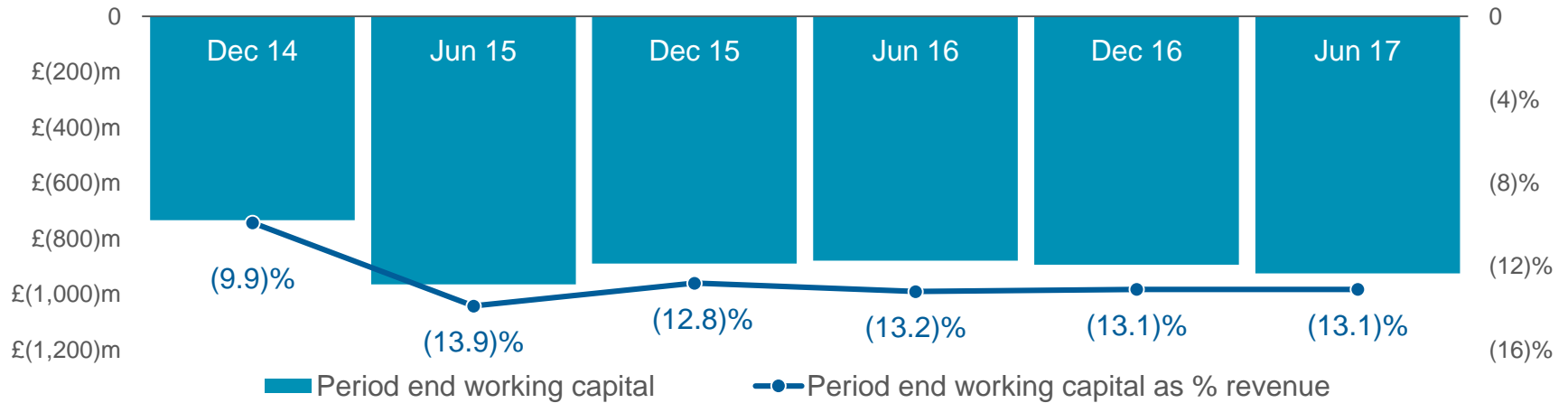


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# Pensions – balance sheet movement



# Working capital – Group



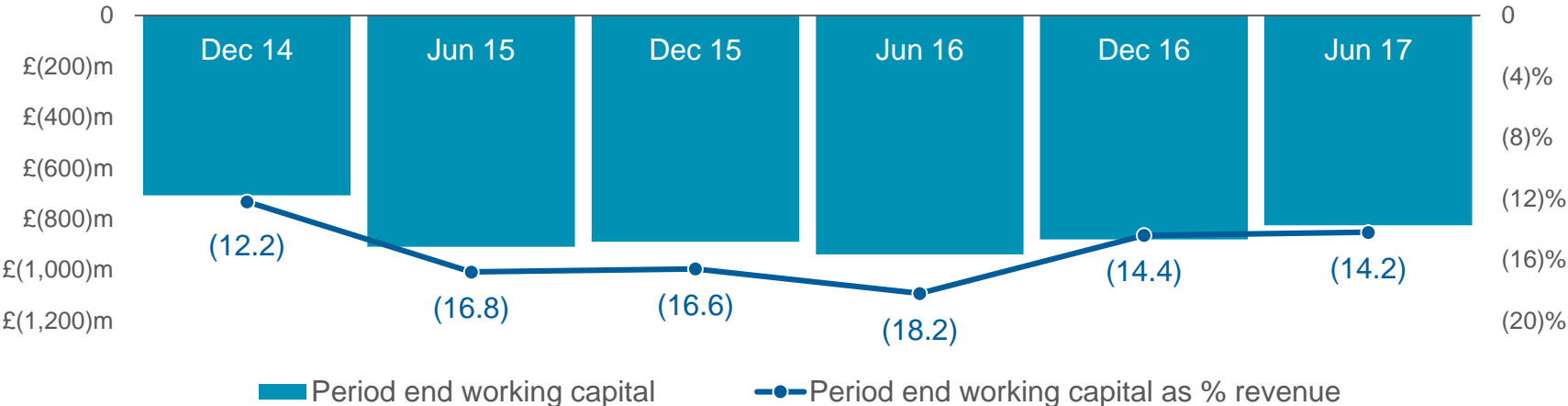
<i>Debtor days<sup>‡</sup></i>	29	28	27	30	34	37
<i>Creditor days<sup>‡</sup></i>	46	53	45	52	51	53

*From continuing operations including non-underlying*

*<sup>‡</sup> 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

# Net interest cost



£m		HY 2017	HY 2016
Subordinated debt interest receivable	12		
Interest on PPP financial assets	5		
Interest on non-recourse borrowings	(6)	11	15
Net finance costs – pension schemes		(3)	(2)
Other interest receivable	3		
Other interest payable	(6)		
FX gains (losses) on US deposits	(3)	(6)	8
US private placement		(7)	(6)
Convertible bonds			
- finance cost	(2)		
- accretion	(3)	(5)	(6)
Preference shares			
- finance cost	(6)		
- accretion	(1)	(7)	(7)
<b>Net interest cost</b>		<b>(17)</b>	<b>2</b>

# Non-underlying items

£m	HY 2017	HY 2016
<b>Trading</b>		
- Engineering Services (ES)	-	(4)
- Rail Germany	-	1
<b>Impairment &amp; amortisation</b>		
- Amortisation of acquired intangibles	(5)	(4)
- Land impairment relating to Blackpool Airport	-	(2)
<b>Restructuring &amp; reorganisation</b>		
- Build to Last transformation costs	(5)	(9)
<b>Disposals and other</b>		
- Gains on disposal of SSL, BBIP and Rail Germany	-	6
- Release of Trans4m provisions	-	9
- Pension fund settlement gain	-	-
- Reassessment of industrial disease related liabilities	-	-
- Revised legal guidelines and settlements	-	(25)
<b>Non-underlying items before tax</b>	<b>(10)</b>	<b>(28)</b>

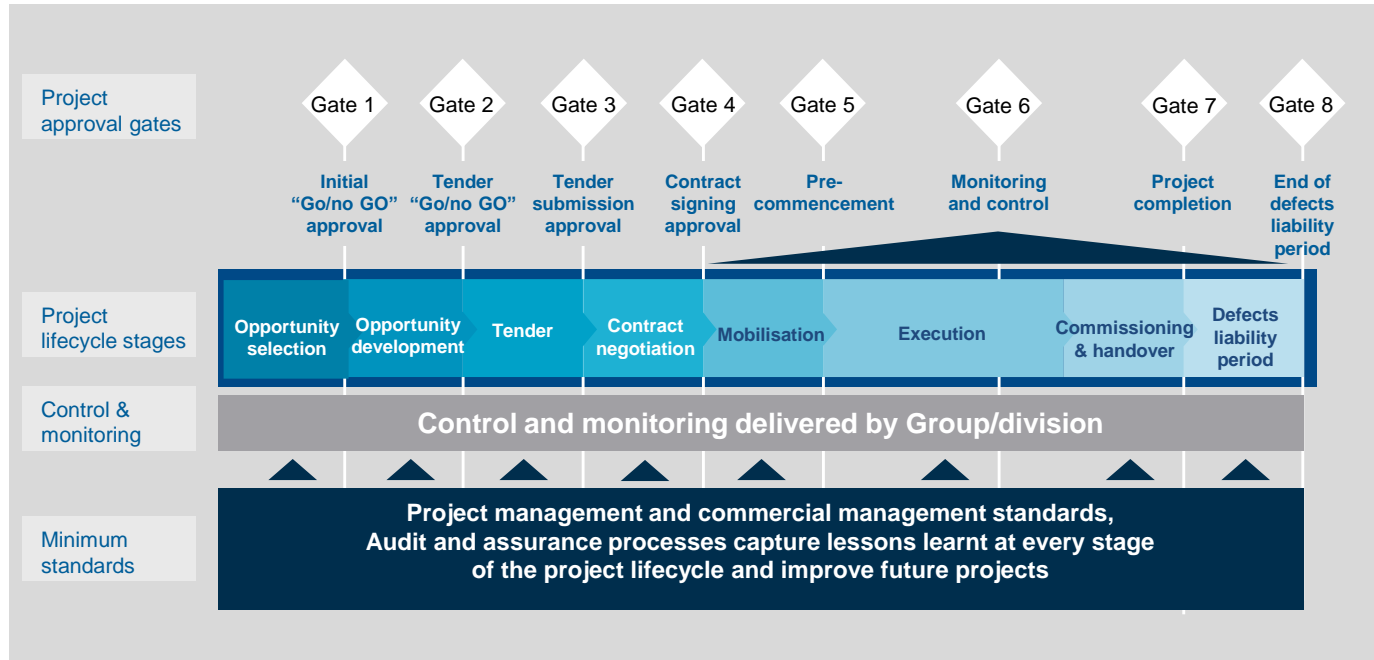
*From continuing operations*

# Infrastructure Investments

	FY 2016 projects	New wins in period	Projects sold	HY 2017 projects	Projects not yet closed
University/student accommodation	10			10	2
OFTO	3			3	
Healthcare	6			6	
Military housing	21			21	
Transport	13			13	
Private rented and regeneration	8			8	2
Energy	4			4	
Other	4			4	
<b>Total</b>	69 <sup>‡</sup>	<b>1</b>	<b>1</b>	<b>69</b>	<b>4</b>

<sup>‡</sup> five projects have not yet reached financial close

# Gated Lifecycle

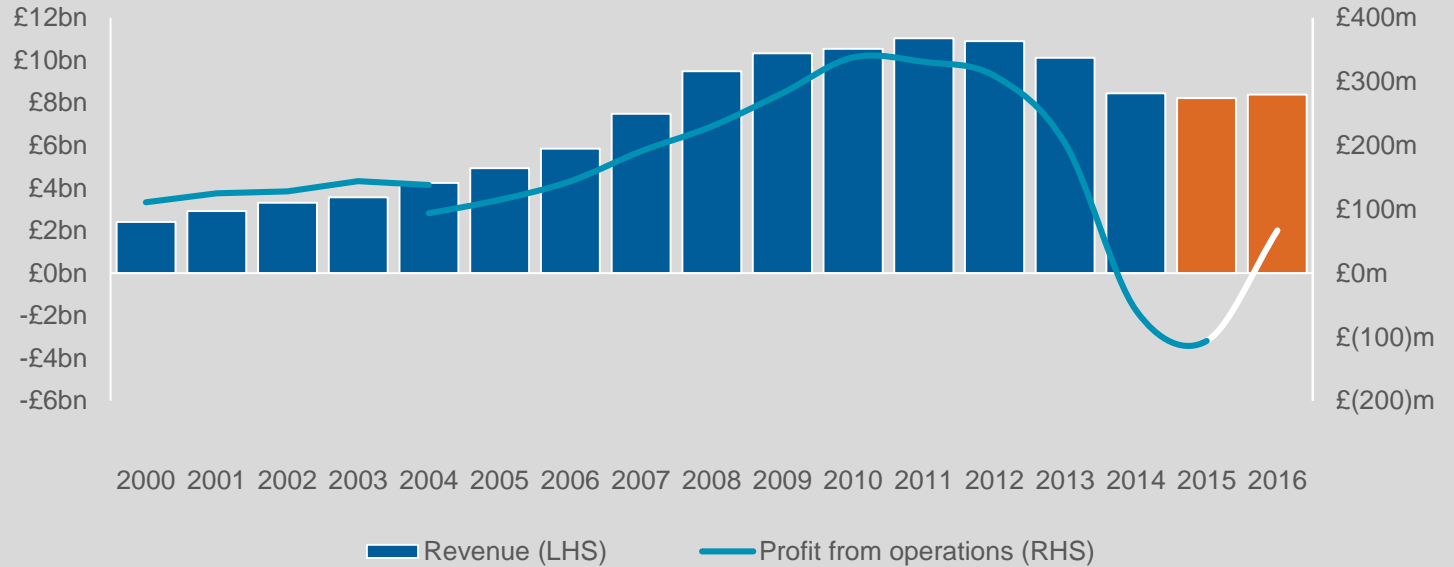


- More selective bidding process
- Focus on cash, cost and risk
- Bid margins improving
- Greater concentration on lower risk contracts

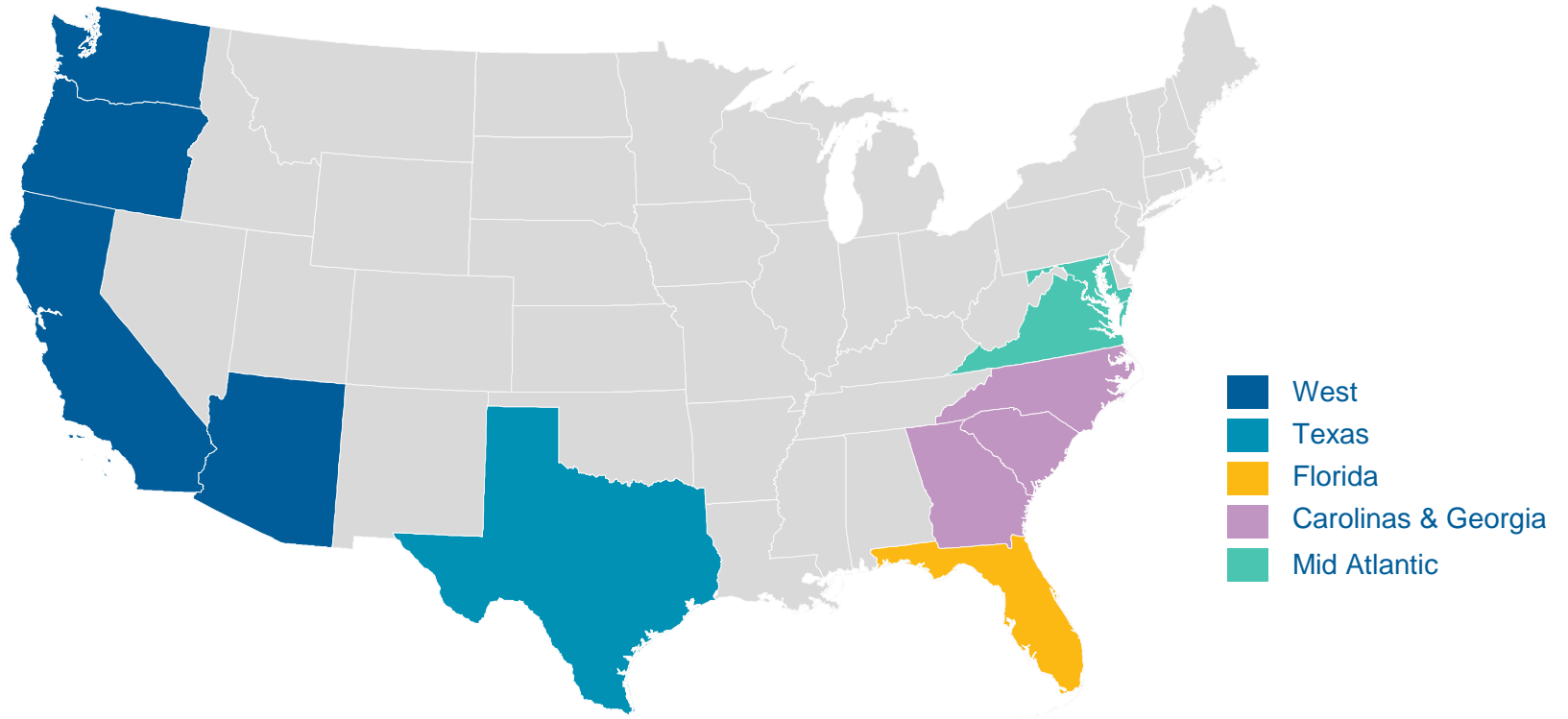
# Financial history

**450%**  
increase in  
revenue

**45**  
acquisitions  
2000-2012



# US Regional Construction



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