Balfour Beatty

2014 half-year results presentation

11 August 2014

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STEVE MARSHALL

Executive Chairman

Agenda

Overview	Steve Marshall
Carillion merger proposal and update on PB sale process	
Key Group priorities	
Half-year financial & operating review	Duncan Magrath
Construction Services UK	Nick Pollard
Q & A	All

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Overview

- Accelerated interim results announcement and rejection of Carillion's merger proposal
- Regulatory health warnings during offer period*:
  - Confidentiality and Panel constraints on merger related information
  - Investments: Directors' Valuation
- Key group priorities are set: including an optimal approach to restoring value from CSUK and for the Group as a whole

**The Group is currently in an offer period which ends on 21 August 2014. This deadline may be extended by agreement between the parties with the consent of the Takeover Panel*

Rejection of Carillion’s merger proposal

- Entered into for the right reasons; rejected for the right reasons
- Initial proposal negotiated up-front to benefit Balfour Beatty shareholders; revised proposal does not address concerns
- Cause of rejection – wholly unexpected decision to retain PB as part of combined entity
- Risk that a failed sale process would materially impact the motivation and retention of Parsons Brinckerhoff management and damage the business competitively
- Significant execution risk associated with the integration of the two businesses would be substantially increased by any material revenue reduction in Balfour Beatty’s Construction Services UK business
- The risk of engaging in detailed due diligence with a competitor while having serious reservations about the transaction and its deliverability
- 100% of cost savings achieved through plans to refocus and simplify the Group will now accrue to Balfour Beatty shareholders

Parsons Brinckerhoff sale process

- Process proceeding in line with Board's expectations
- Round 3 bids expected very shortly; strong competitive interest maintained
- Transaction process is now well advanced
- Application of proceeds
  - Beneficial outcome for shareholders, funders and pension fund
  - Return of up to £200 million to shareholders anticipated*
- Dividend implications post transaction
  - To be reassessed at year end
  - Prudent cover appropriate to the characteristics of the new Balfour Beatty Group

** return of capital can only take place after the end of the offer period*

Key Group priorities

- Board is committed to restoring shareholder value
- Group is being refocused to reduce complexity & improve the risk profile:
  - Conclude PB sale process at value attractive to shareholders
  - Tighten geographic footprint and improve risk profile; strengthened bidding disciplines
  - Increased indirect overhead savings and shared service efficiencies
- Construction Services UK turnaround:
  - Managed rather than dramatic downsizing; retain a profitable Regional business
  - Targeted approach will limit operational risk and cash outflow impact
  - Progressively return to peer group margins
  - Current contract portfolio is being worked through, so some short term risks remain

Key Group priorities

- Recruit outstanding Group CEO to drive recovery
- Develop longer term strategy around a post-PB Group:
  - Strong Anglo-American construction and specialist services presence – significant US market opportunity and UK margin recovery potential
  - Investments business is value creating and synergistic
  - Retain Middle East & Far East JV investments, to the extent value accretive
- Board believes this approach to be in shareholders' interests to support the Group in reshaping Balfour Beatty
- Continuing openness to future value creation opportunities

DUNCAN MAGRATH

Chief Financial Officer

Headline numbers

	HY 2014	HY 2013	Actual growth	Constant currency
Revenue*	£4,851m	£4,956m	- 2%	+ 2%
Underlying profit from operations*	£37m	£54m	- 31%	- 25%
Pre-tax underlying profit*	£22m	£47m	- 53%	
Underlying EPS*	3.9p	6.6p	- 41%	
Average borrowings#	£(424)m	£(298)m		
Net borrowings#	£(364)m	£(173)m		
Interim dividend	5.6p	5.6p		

	HY 2014	FY 2013	Actual growth	Constant currency
Order book*	£13.0bn	£13.3bn	- 2%	- 1%

**from continuing operations* *#excluding 100% of non-recourse PPP net debt*

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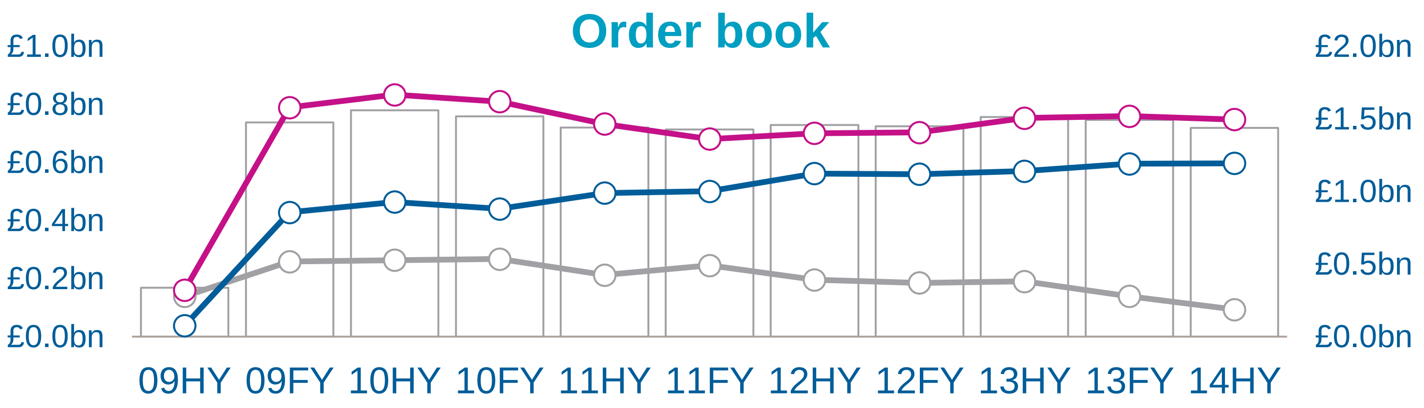
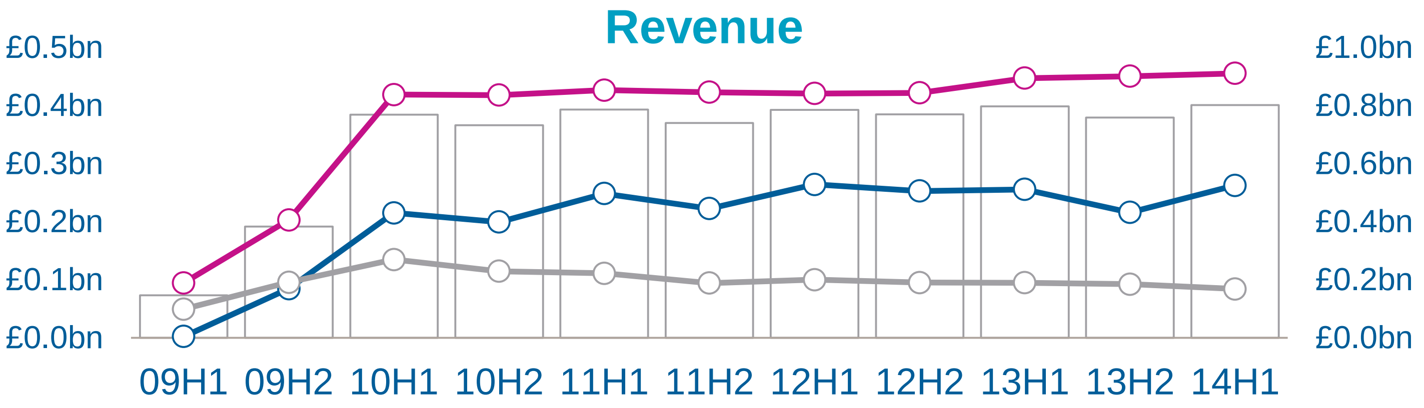
Professional Services

Steady performance



	%	HY14 £bn	Growth v FY13	Constant currency
US	50%	0.7	- 4%	- 1%
RoW	43%	0.6	- 3%	-
UK	7%	0.1	- 30%	- 30%
Total	100%	1.4	- 6%	- 4%



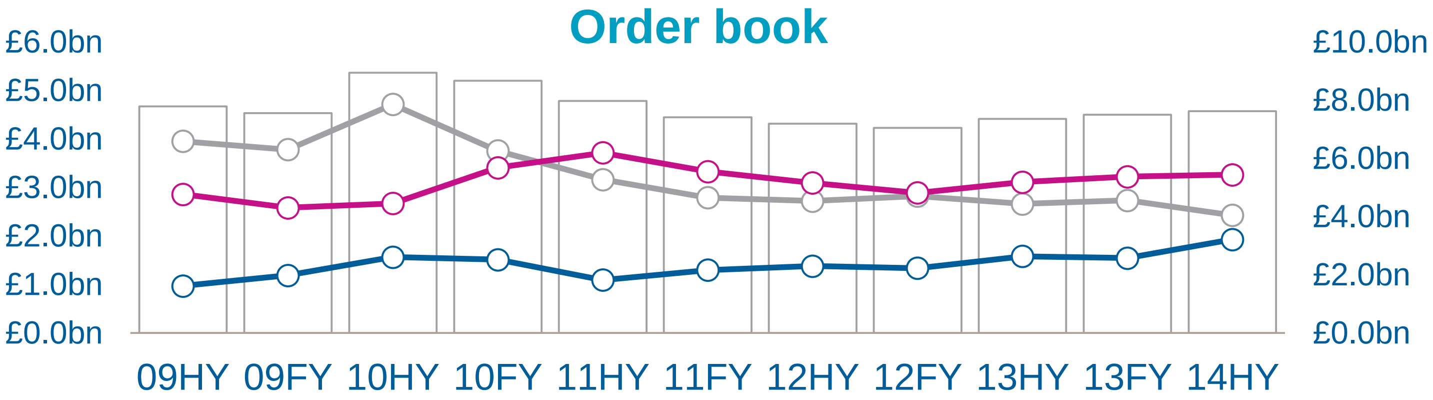
	%	HY14 £bn	Growth v HY13	Constant currency
US	50%	0.4	- 6%	+ 2%
RoW	37%	0.3	- 10%	+ 3%
UK	13%	0.1	- 11%	- 11%
Total	100%	0.8	- 8%	+ 1%

Total US RoW UK

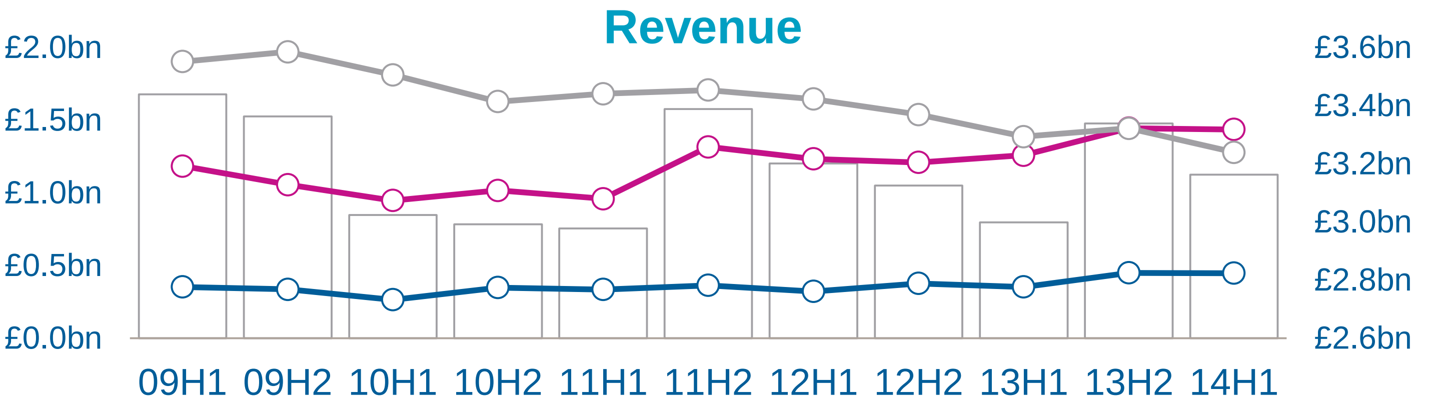
Left-hand axes represent lines by geography / Right-hand axes represent segment total bars
2013 and earlier figures presented on a constant currency basis

Construction Services

UK revenue decline and continuing US pick up



	%	HY14 £bn	Growth v FY13	Constant currency
US	43%	3.3	- 2%	+ 1%
UK	32%	2.4	- 11%	- 11%
RoW	25%	1.9	+ 22%	+ 25%
Total	100%	7.6	-	+ 2%



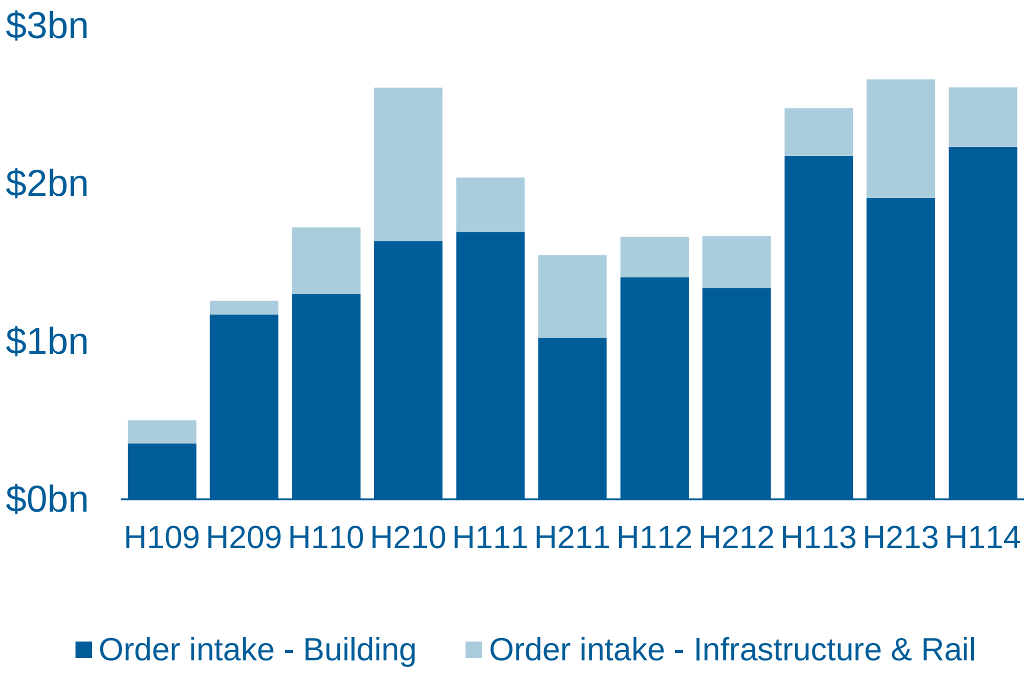
	%	HY14 £bn	Growth v HY13	Constant currency
US	44%	1.4	+ 6%	+ 14%
UK	41%	1.3	- 7%	- 7%
RoW	15%	0.5	+ 13%	+ 25%
Total	100%	3.2	+ 1%	+ 6%

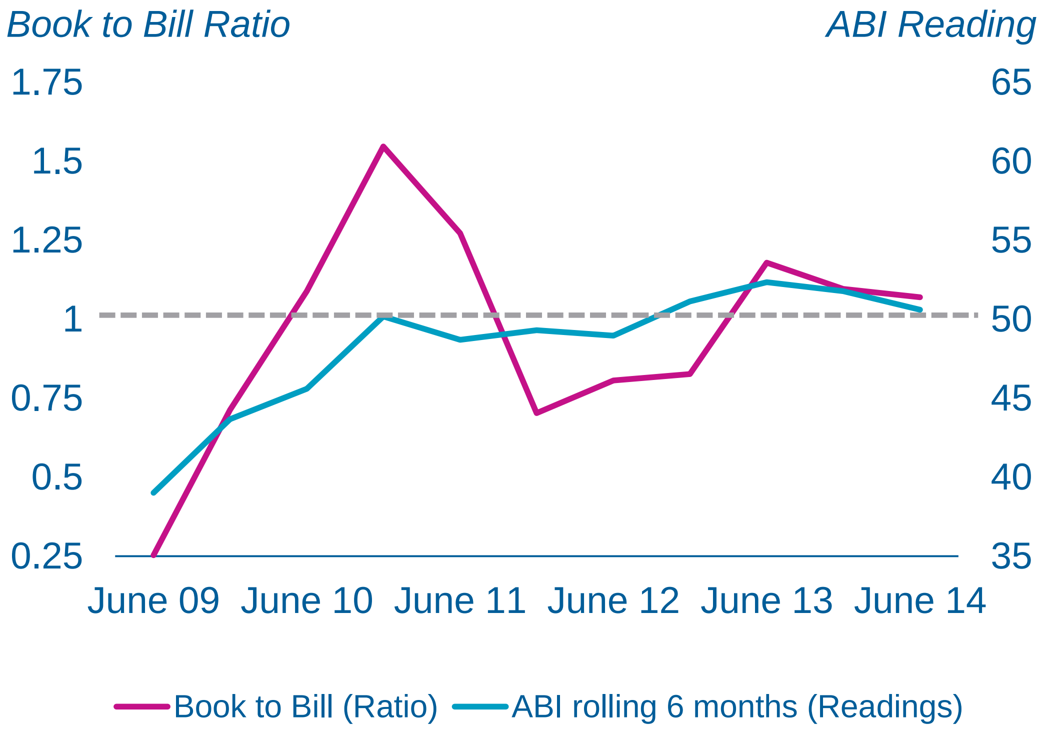
Total US UK RoW

Excludes discontinued rail businesses for whole period
Left-hand axes represent lines by geography / Right-hand axes represent segment total bars
2013 and earlier figures presented on a constant currency basis

US construction

Continuing strength in US order intake





Since June 13 Book to Bill consistently returns above 1.0 and ABI continuing above 50

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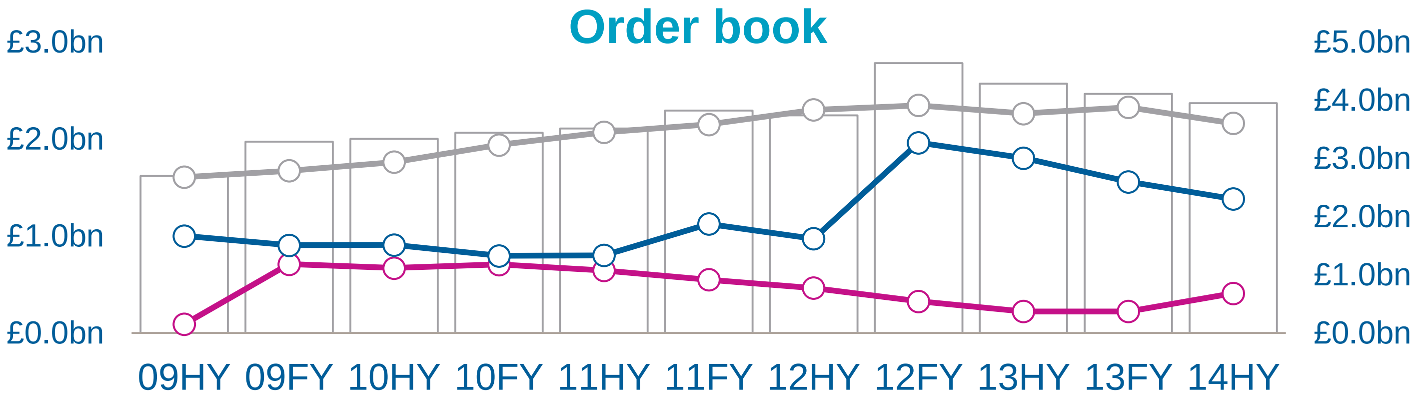
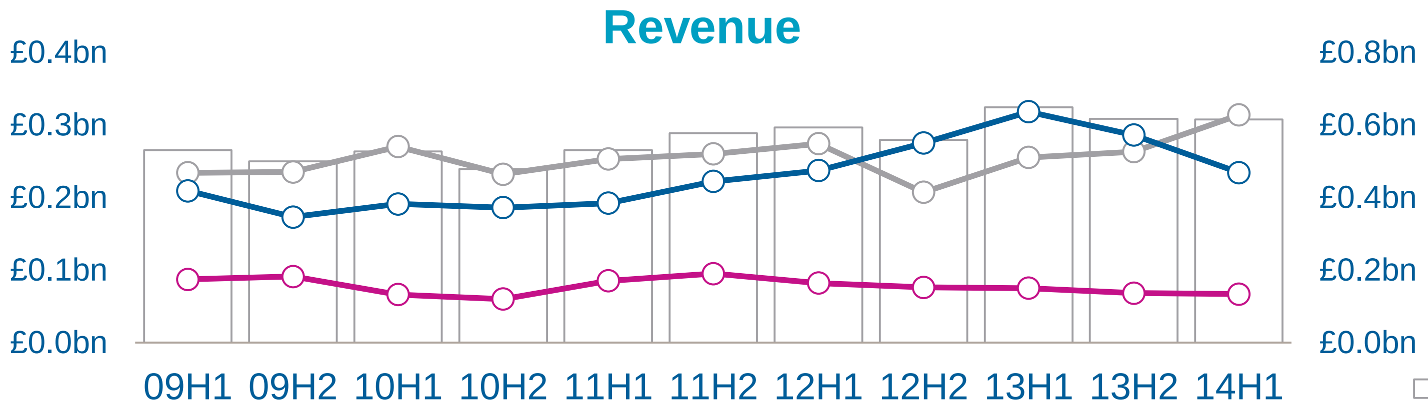
Support Services

Good wins in AMP6 water cycle and strong transport revenue



	%	HY14 £bn	Growth v FY13
Transport	55%	2.2	- 7%
Power	35%	1.4	- 11%
Water	10%	0.4	+ 84%
Total	100%	4.0	- 4%



	%	HY14 £bn	Growth v HY13
Transport	50%	0.3	+ 23%
Power	33%	0.2	- 26%
Water	17%	0.1	- 11%
Total	100%	0.6	- 5%

Total Transport Power Water

Excludes discontinued FM business for whole period
Left-hand axes represent lines by market / Right-hand axes represent segment total bars

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Infrastructure Investments – HY 2014

Successful period for closes and disposals

	Achieved financial close	Appointed preferred bidder	Remain preferred bidder	Total
University/student accommodation				3
OFTO				2
Hospitals				3
Military housing				1
Transport				1
Total	**6**(1,2)	**1**	**3**	**10**(1)

- £97m of proceeds from PPP disposals in H1 2014(3)

(1) *includes 2 in 2014 HY2*
(2) *4 of these financial closes were also appointed preferred bidder in HY14*
(3) *RNS announcement, 2 June 2014*

Infrastructure Investments
UK disposal gains over last 30 months

Date	Transaction	Consideration £m	Directors' Valuation £m	Excess* £m	%#
2014 disposals[(1)]	50% interest in Durham Hospital & 100% interest in Knowsley Schools	97	53	44	82%
2013 disposals[(2)]	75% interest in CNDR Road, 65% interest in A30/A35, 50% interest in Salford Hospital, 50% interest in 4 PFI schools projects & 50% interest in Tameside Hospital	128	83	45	54%
2012 disposals[(3)]	50% interest in Transform Schools (North Lanarkshire) & 33% interest in Health Management (UCLH)	84	67	17	25%
		309	**203**	**106**	**52%**

[(1)] RNS announcement, 2 June 2014
[(2)] 2013 Annual Accounts
[(3)] 2012 Annual Accounts

** Excess is calculated as: consideration less Directors' Valuation*
 # % is calculated as: excess divided by Directors' Valuation

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Infrastructure Investments
UK Directors' Valuation

- Detailed revaluation exercise performed on UK PPP portfolio, reflecting recent disposal prices achieved and current market conditions
- Updated for:
  - Revised discount rates
  - Revised cash flow assumptions
  - Revised macro assumptions (inflation)
- Update will be published as soon as possible

Profit from operations – by segment

	Professional Services		Construction Services		Support Services		Infrastructure Investments		Corporate activities	
	HY14	HY13	HY14	HY13	HY14	HY13	HY14	HY13	HY14	HY13
Profit	26	26	(69)	(39)	22	*17*	72	*63*	(14)	(13)
Margin %	*3.2%*	*3.0%*	-	-	3.6%	*2.6%*	26.6%	*21.4%*		

Professional Services

- Reduced losses in Australia
- UK improved profitability
- Delays in US power projects holding back profits

Construction Services

- Poor performance in Engineering Services
- Good performance in US construction
- Middle East – improvement in construction offset by challenges in M&E market
- Strong Hong Kong market, but profit performance will lag

Support Services

- Good performance in transportation, particularly on highways and Local Authorities contracts
- Extension of Network Rail contract
- Decline in power transmission revenue and profits as expected

Infrastructure Investments

- £51m of investment disposal gains
- Increased profits due to revisions to expected lifecycle and other operating costs within the PPP investment portfolio

Total

HY14	HY13
37	*54*
0.8%	*1.1%*

From continuing operations, before non-underlying items
Margin %

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Cash used in operating activities

£m	HY 2014	HY 2013
Profit from underlying operations	37	54
Share of JV profit	(42)	(30)
Depreciation	23	25
Pension deficit payments	(25)	(37)
Profit on disposal of PPP investments	(51)	(45)
Increase in working capital	(191)	(153)
Other	9	(3)
Cash used in continuing operations – underlying	**(240)**	**(189)**
Income taxes paid	(8)	(9)
Non-underlying items & discontinued operations	(46)	(47)
Cash used in operating activities	**(294)**	**(245)**

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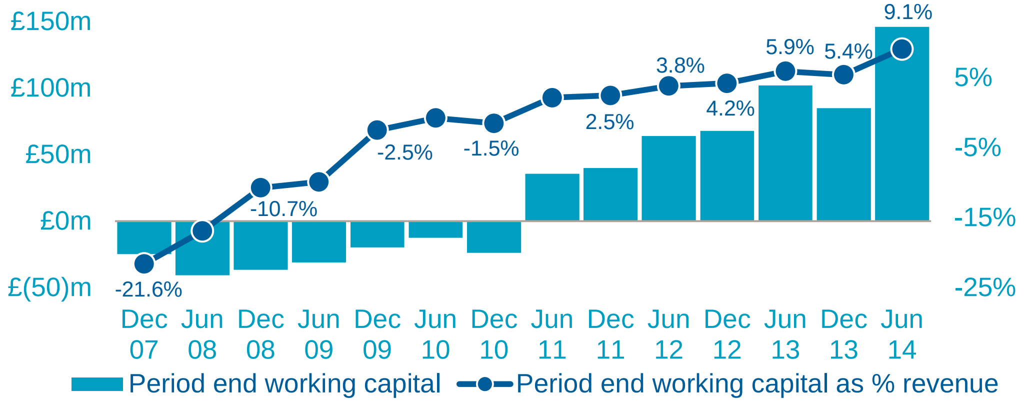
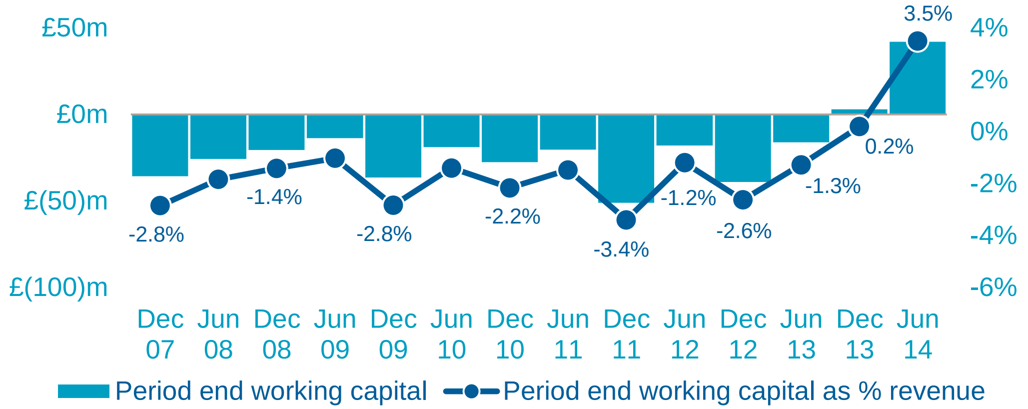
Working capital – £191m outflow on underlying items & continuing businesses, inflows expected in HY2

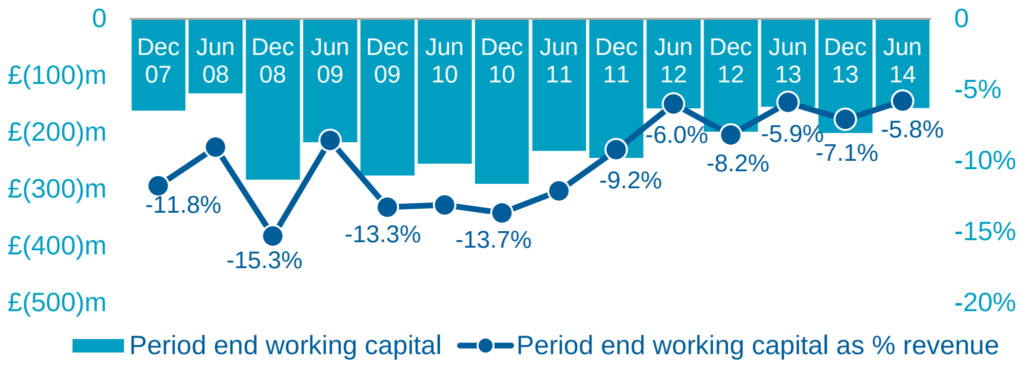
Professional Services, larger than expected



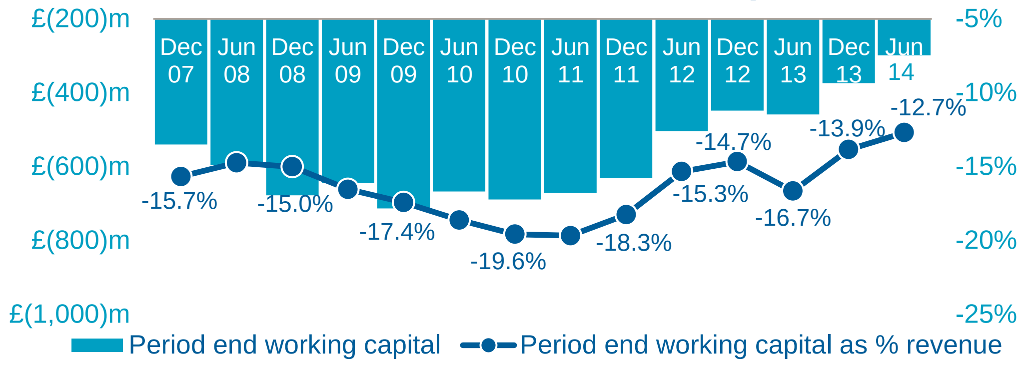
Support Services, larger than expected



US Construction, stabilised



UK Construction, outflow as expected



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Summary of first half 2014

- Order book stable at £13bn
- Steady performance from Professional Services
- Good performance from Investments and Support Services
- Reduction in performance in Construction Services
  - US + RoW good performance
  - UK down principally due to Engineering Services
  - Recovery of UK Construction remains work in progress
- Working capital outflow in HY 1, inflows expected in HY 2
- Interim dividend maintained
- First-half trading performance is in line with our most recent trading update

NICHOLAS POLLARD

CEO, Construction Services UK

Construction Services UK

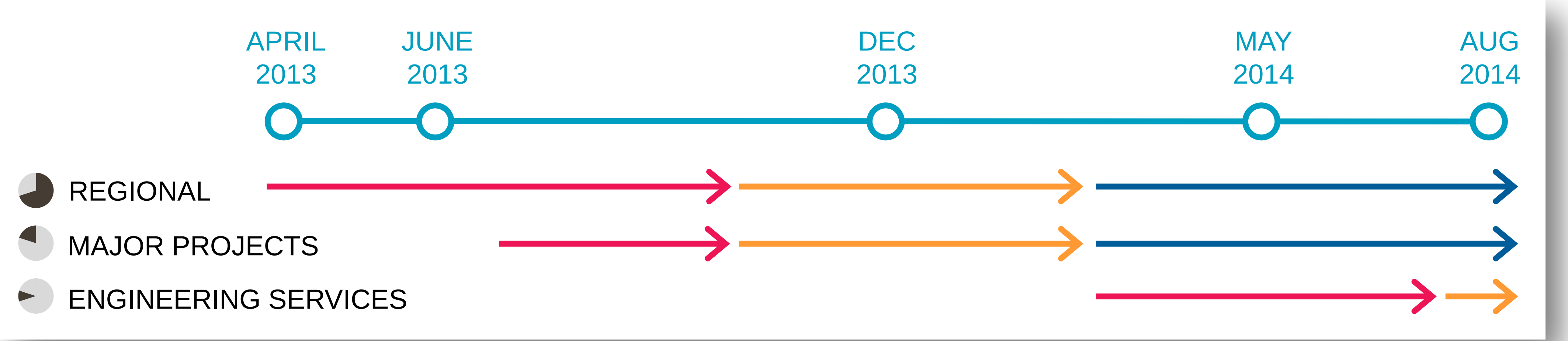
Overview

- Turnaround plan initiated in 2013 (“The Road Ahead”)
  - Initial focus on regional construction
  - Entire business has now been reviewed
- Lead indicators indicate the strategy is starting to work

STAGE 1 DIAGNOSE & STABILISE

STAGE 2 STRENGTHEN & MONITOR

STAGE 3 REALIGN & IMPROVE



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Construction Services UK
Regional business

1. Diagnose & stabilise

- Bidding disciplines tightened, including minimum margin hurdles
- "Road Ahead" plan devised and communicated to provide clarity and secure commitment of our people

2. Strengthen & monitor

- Leadership team changes
- Removal of legacy brands & move towards unified approach
- Measures and metrics, including customer feedback

3. Improve & realign

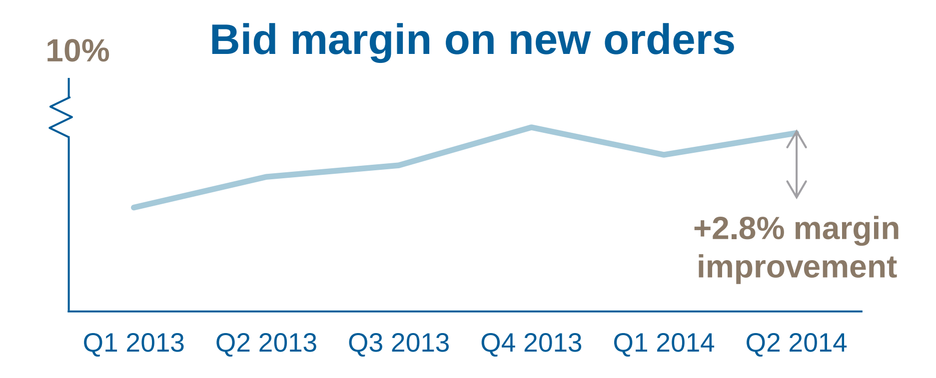
- More selective contract bidding & early engagement
  - strengthened bid governance: targeting larger contracts, repeat business
  - reducing exposure to geographies and customers with poor quality pipeline
- Improved operational control
  - visibility and granularity of project performance improving
  - retaining and developing the best people
- Remain regionally focused, enabling strong collaborative relationships with customers & supply chain, in an improving market

Construction Services UK
Regional business – performance improvement

- Lead indicators suggest the strategy is starting to work
- Focusing on larger jobs
- Profitability improving & reducing exposure to geographies and customers with poor quality pipeline
- Margin on new orders is improving as a result

	June 2013	June 2014	Jan 2015 target
% of live jobs by value < £5m	42%	34%	15%

Regional delivery units	June 2013	June 2014	Jan 2015 target
Profitable*	14	17	17
Unprofitable*	7	3	0
Total	21	20	17



** Profit levels only include directly allocated divisional overheads, and as a result the Jan 2015 target is not a profit forecast as it is not possible to derive a profit figure for UK regional construction*

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Construction Services UK
Major Projects

1. Diagnose & stabilise

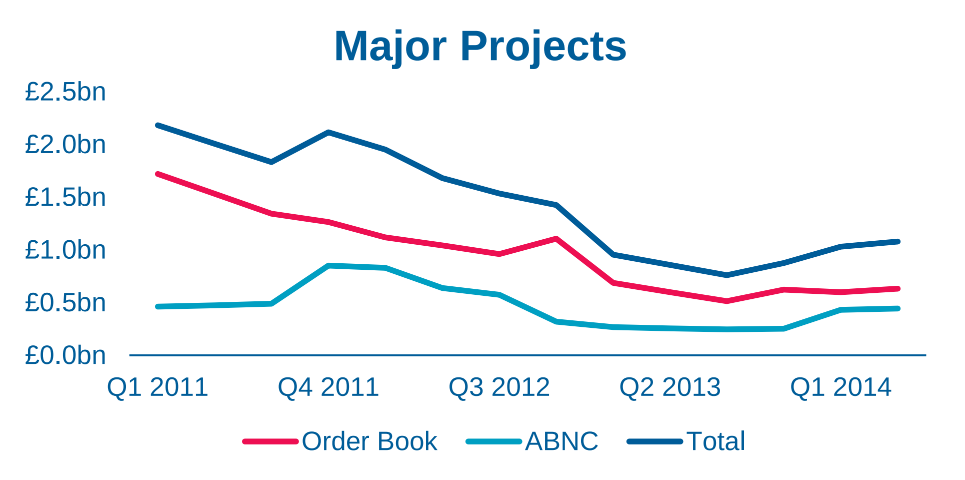
- Analysis of pipeline
- Building contracts moved to match best skill-set

2. Strengthen & monitor

- Leadership team changes
- Improved work winning practices & capabilities
  - improved tender submissions addressing sustainability & other key client concerns
  - appointment of specialist team leaders
  - closer to our customers; listening & understanding
  - collaborative relationships with customers

3. Improve & realign

- Some building projects moved to regional
- Order book +6% since HY2013
- ABNC & order book combined +26% since HY13, from low base



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Construction Services UK
Engineering Services

1. Diagnose & stabilise – May 2014

- All contracted projects reviewed
- Bad projects being stabilised, but short term risks remain
  – majority of loss making contracts due to complete in 2014
  – no new external Tier 1 work in London
- Stringent controls of new work

2. Strengthen & monitor – June 2014

- Leadership changes will be complete in August (New MD starts mid-August)
- Reviewing and withdrawing from geographies and customers with poor quality pipeline
- Continuing to pursue contractual entitlement

Construction Services UK
Improvement initiatives

1. Cost improvement plan already well established

- £40m reduction in CSUK overhead between 2011 and 2013
- However overhead has remained above 6%, due to revenue reduction

2. Ongoing initiatives poised to deliver further benefit

- ERP phased implementation through to Q1 2015
  - enhanced data analytics will improve operational control
  - procurement consolidated through preferred suppliers
- Shared service centre efficiencies

3. Future initiatives

- Identifying and accelerating additional procurement initiatives
- Behaviour, beliefs & culture
- Progressive & managed process reduces business risks

4. Market recovery offers opportunity to further enhance profitability

Construction Services UK
Conclusions

- Performance turnaround strategy has been in place since 2013
  1. collaborative customer and supply-chain relationships
  2. more selective and thoughtful bidding
  3. operational excellence in delivery
  4. developing and retaining the best people
  5. cost base improvement
- Lead indicators suggest the strategy is starting to work
- Signs of recovery but short term risks still remain

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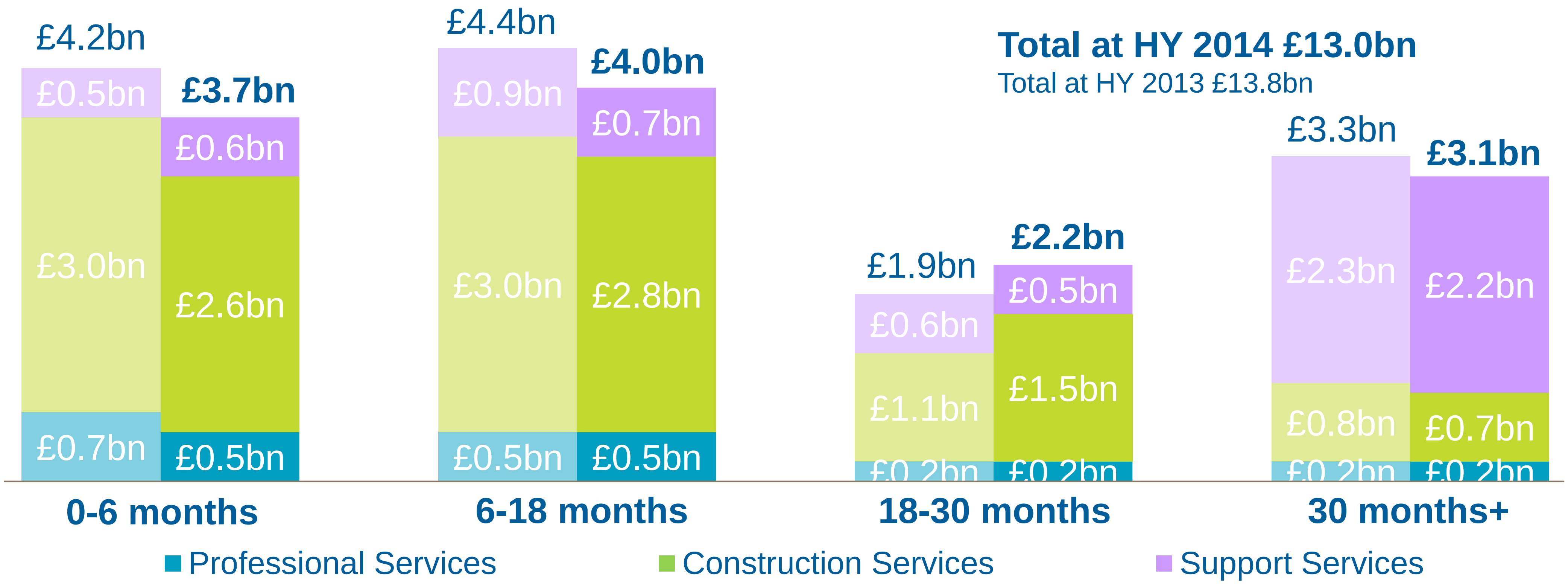
Order book position compared with a year ago



In each series group, left-hand column represents the order book as at 28 June 2013, and the right-hand column as at 27 June 2014
From continuing operations
2013 order book restated for £110m reallocation from Professional Services to Support Services

Infrastructure Investments
Change in IFRIC 12 estimates

- Affects PPP investments classified as financial assets
- Present value of change in forecast cash flows recognised immediately through the income statement
- Effect in HY 2014:
  - £15m increase in HY14 profit from operations
  - £1m increase in HY14 investment income
  - Future profit increase of £1m pa due to changes in cash forecast at HY14
- Impacts PPP disposal profits in future

Discontinued businesses
Rail Germany/Scandinavia/Spain/Italy

FY 13*		HY 2014	HY 2013*	Actual growth	Constant currency
£588m	Order book	£350m	£685m	- 40%#	- 40%#
£424m	Revenue	£127m	£198m	- 36%	- 37%
£(26)m	Underlying loss before tax	£(13)m	£(22)m		
	Non-underlying items:				
£(38)m	– non-cash impairment	£(30)m	£(38)m		
£(13)m	– other items†	£(3)m	£(12)m		

† *includes gains / losses on business disposals*
 # growth compared to Dec 13
** restated to include Rail Italy. Includes results of Rail Spain until March 2013 and Rail Scandinavia*

- Spain sold in March 2013, Scandinavia sold in January 2014
- Germany – in discussion with a number of buyers for remainder of business
- Italy – advanced discussions in progress

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Non-underlying items

FY 13	£m	HY 2014	HY 2013
30	Amortisation of acquired intangible assets	10	16
52	Restructuring and reorganisation costs	4	23
17	Cost of implementing UK and US shared service centres	6	11
-	JV goodwill impairment in respect of Middle East	1	-
4	Post acquisition integration, reorganisation and other costs	-	1
52	Pension curtailment charge	-	-
155	**Total of non-underlying items**	**21**	**51**
35	Tax on non-underlying items	5	16

From continuing operations

Underlying effective tax rate

FY 2013		HY 2014				HY 2013			
Tax rate (%)	£m	PBT	Tax	PAT	*Tax rate (%)*	PBT	Tax	PAT	*Tax rate (%)*
43%	Group, excluding JVs & associates*	(20)	5	(15)	***24%***	17	(2)	15	***12%***
11%	JVs & associates*	52	(10)	42	***19%***	36	(6)	30	***17%***
30%	Aggregate*	32	(5)	27	***16%***	53	(8)	45	***15%***
	Less JV tax*	(10)				(6)			
	Pre-tax profit*	**22**				**47**			

** from continuing operations before non-underlying items*

Group balance sheet

£m	June 2014	Dec 2013	June 2013*
Goodwill and intangible assets	1,213	1,252	1,307
Current assets#	2,217	1,956	2,066
Current liabilities and current provisions#	(2,563)	(2,506)	(2,700)
Working capital#	(346)	(550)	(634)
Net assets held for sale	26	12	154
Net borrowings (excluding PPP subsidiaries)	(387)	(66)	(189)
PPP subsidiaries – financial assets	287	455	537
PPP subsidiaries – non-recourse net borrowings	(224)	(354)	(380)
Retirement benefit obligations (net of tax)	(311)	(340)	(258)
Other assets	1,163	1,120	1,146
Other liabilities	(458)	(496)	(490)
Equity holders' funds	**963**	**1,033**	**1,193**

excluding cash/borrowings, tax and derivatives

* *restated to reflect the effect of IAS19 Employee Benefits (Revised)*

Balance sheet cash movement

£m	June 2014	June 2013
Opening net cash†	(66)	35
Cash used in operations†*	(289)	(237)
Dividends from JVs and associates	14	13
Capital expenditure and financial investment (incl. JV disposed)	(45)	29
Acquisitions and disposals (net of net cash acquired / disposed)	26	(21)
Dividends, interest and tax paid	(12)	(14)
Exchange adjustments	(7)	24
Other items	(8)	(18)
Closing net borrowings†	**(387)**	**(189)**
PPP subsidiaries non-recourse net borrowings	(224)	(380)
Closing net borrowings	(611)	(569)

† excludes non-recourse net debt and cash flows in PPP subsidiaries
** excludes tax paid*

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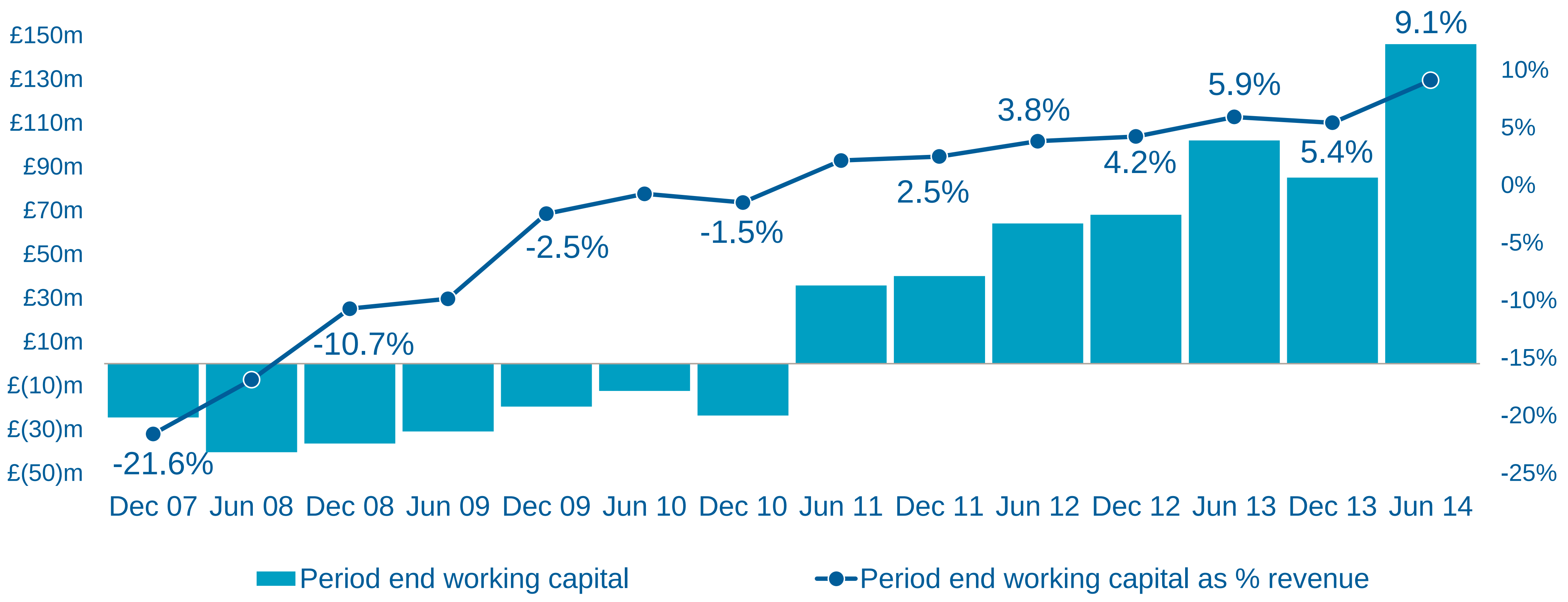
Working capital – Professional Services



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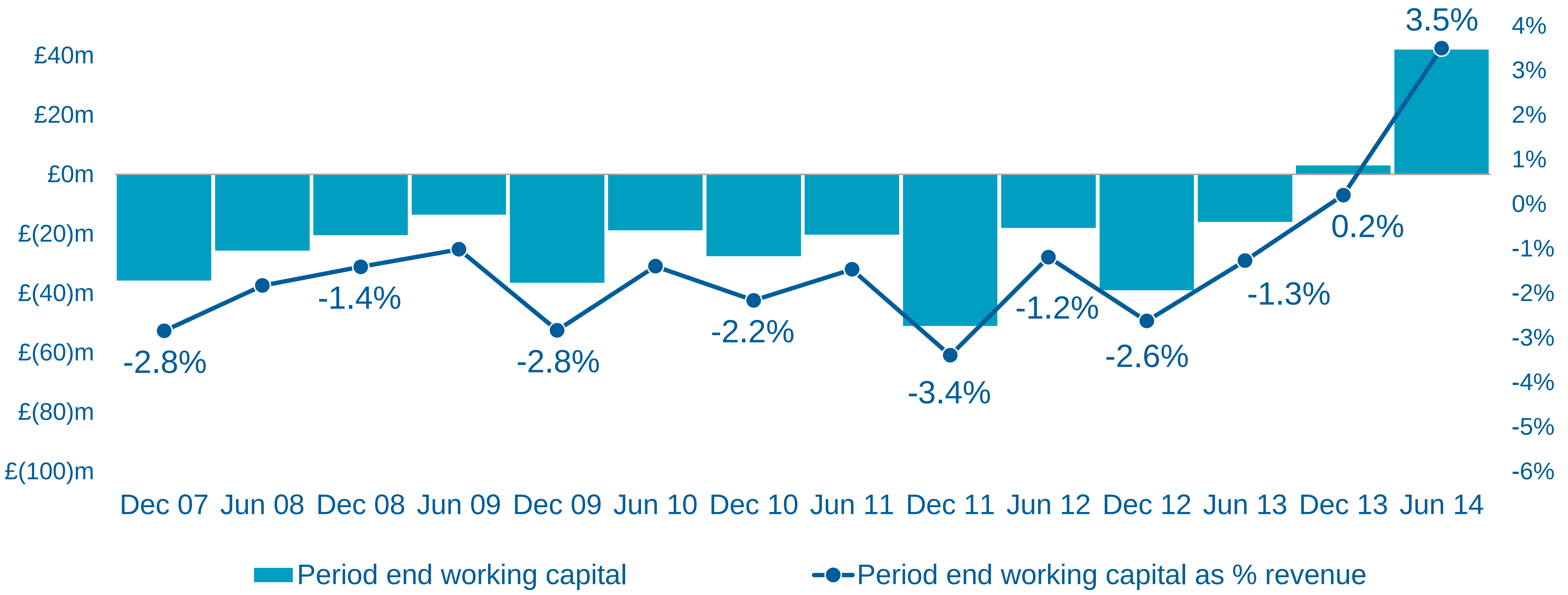
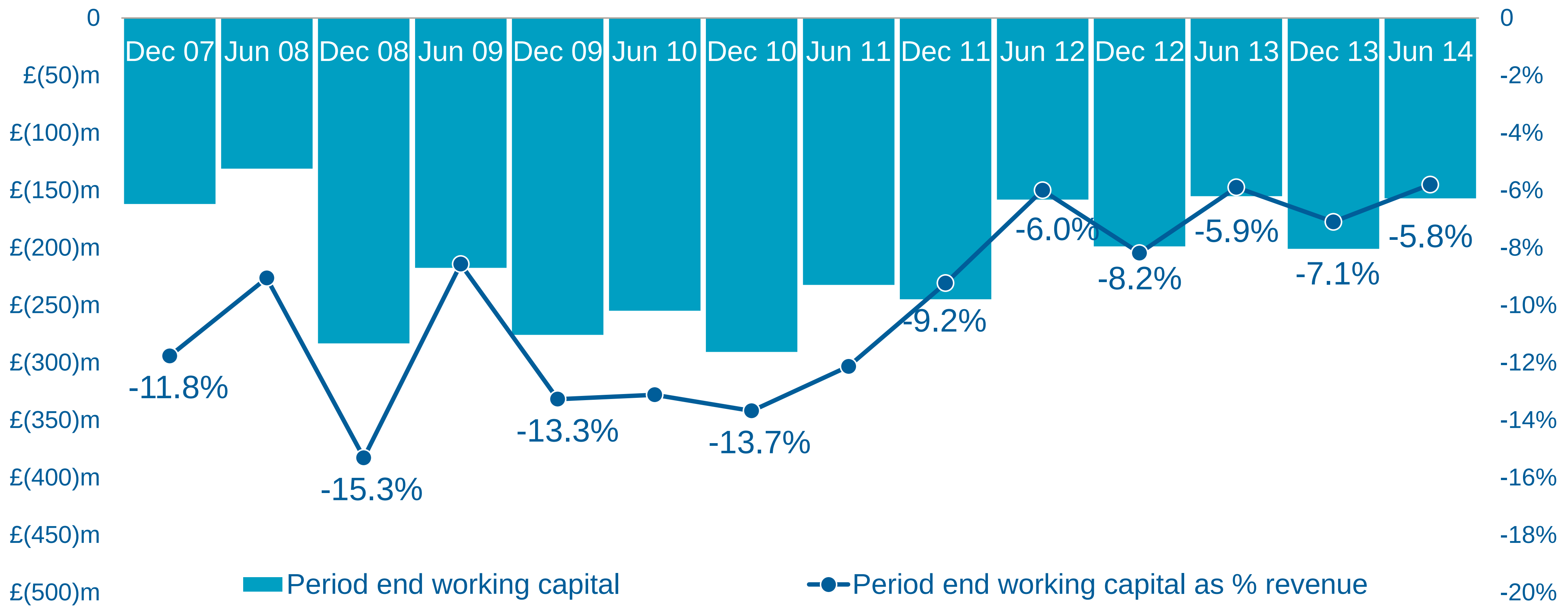
Working capital – Support Services



Dec 2012 and earlier figures include the facilities management business disposed of in 2013

Working capital – Construction Services US



June 2012 to Dec 2013 restated for consistent accounting treatment with June 2014

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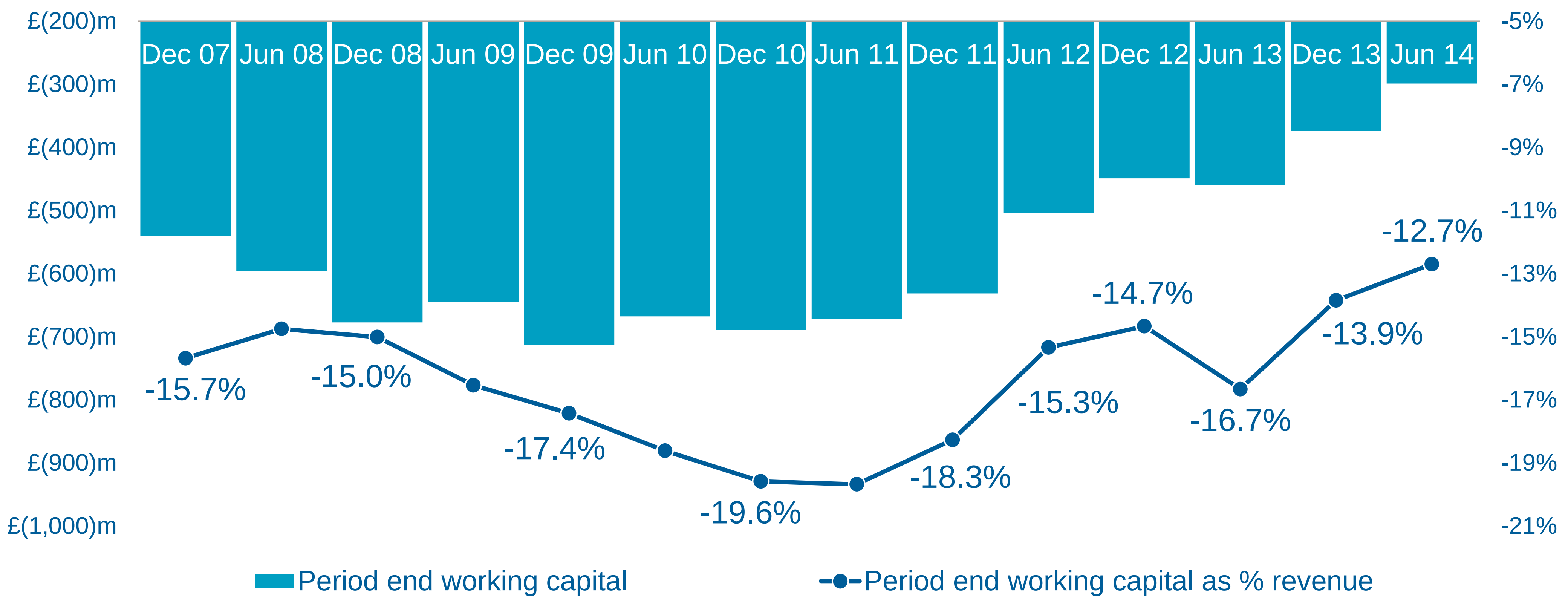
Working capital – Construction Services UK



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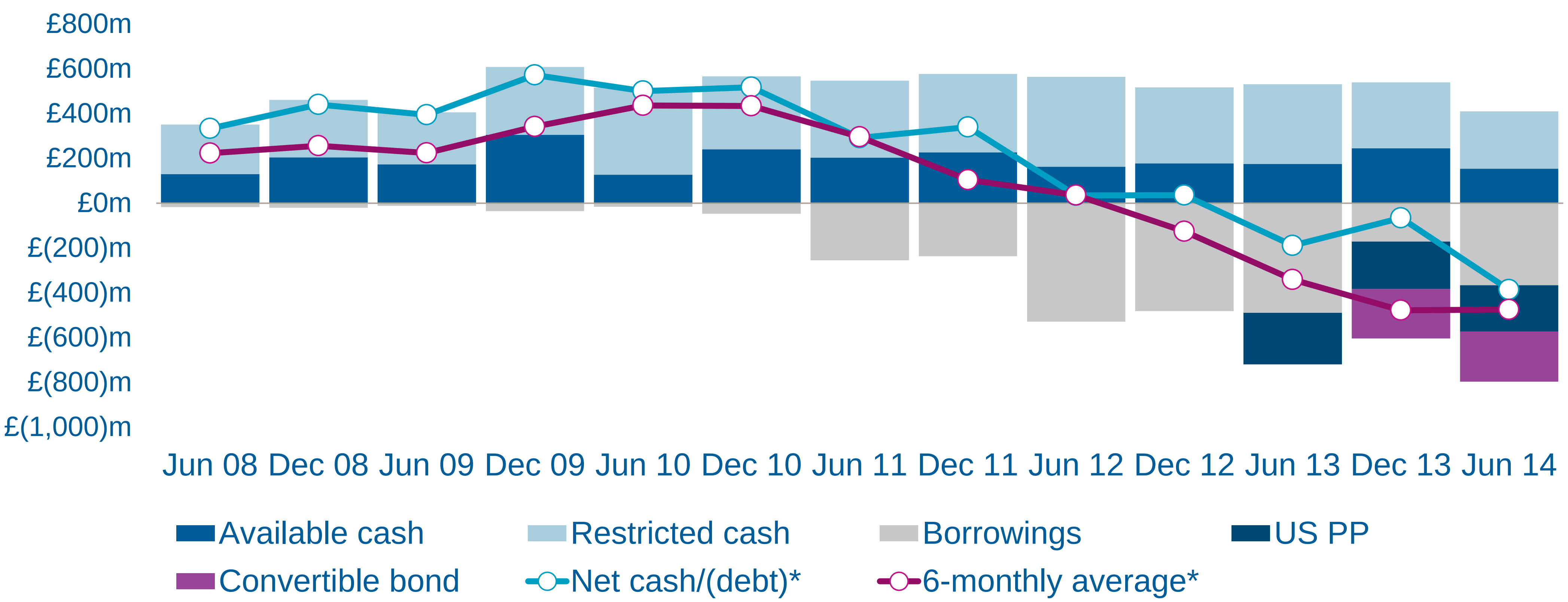
Net cash/(debt) balances†



† excluding non-recourse net debt of PPP subsidiaries

** FY 2012 and earlier figures includes Rail Germany, Rail Scandinavia, Rail Spain and UK facilities management business. FY 13 and earlier figures include Rail Italy.*

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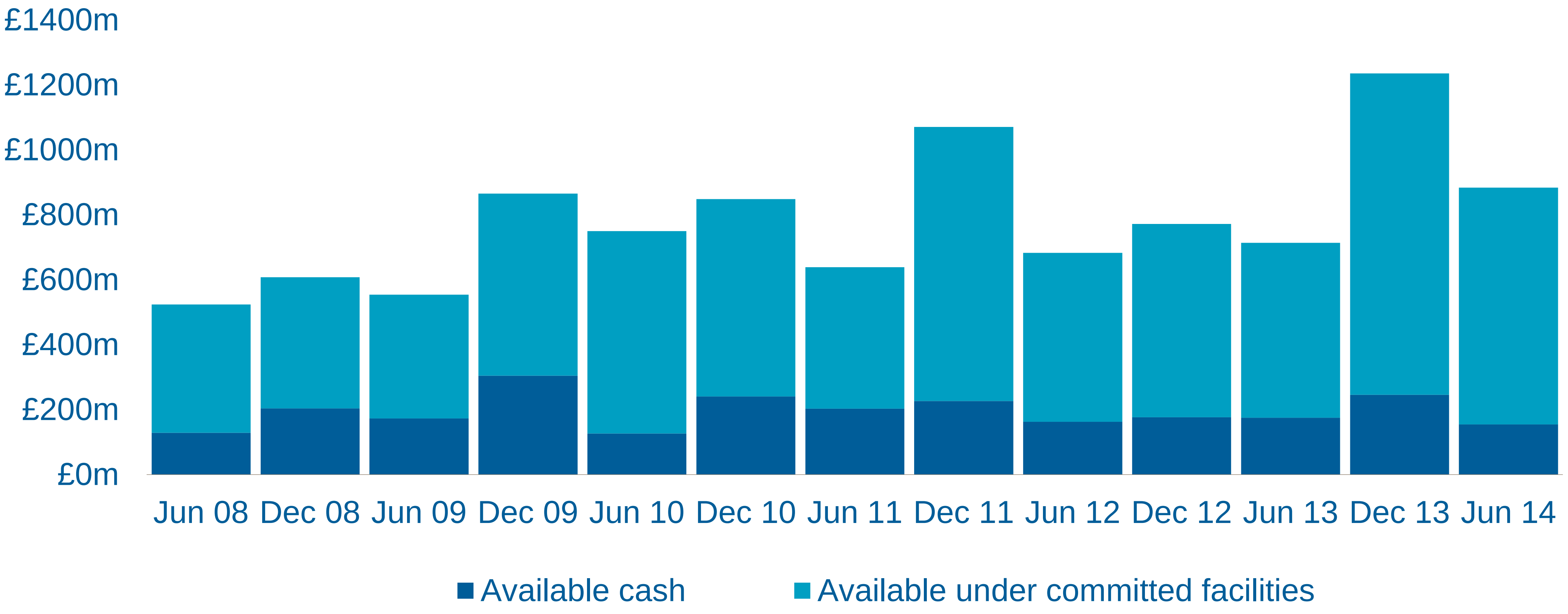
Available funds



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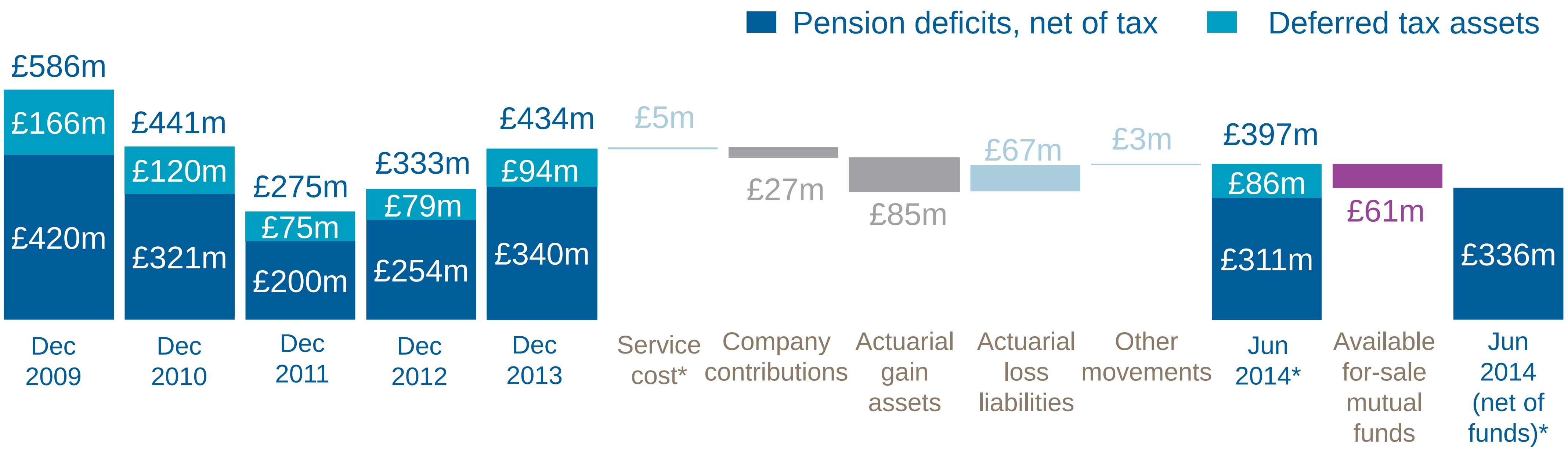
Pensions – balance sheet movement



2.15%	*2.05%*	*1.9%*	*1.5%*	*1.05%*	*Real discount rate*	*0.95%*

Since Dec 2009 deficit funding of £339m

** from continuing operations*

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