

KPMG Review, Valuation of Investments Portfolio and Trading Update

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Agenda

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| 1. Initial observations | Leo Quinn |
| 2. KPMG Review | } |
| 3. Valuation of Investments Portfolio | |
| 4. Trading Update | |
| 5. Concluding remarks | Leo Quinn |
| • Qs & As | |

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Initial observations

- Review of UK Construction starts to draw a line under uncertainty
- With backdrop of increased risk provisions - buyback cancelled, dividend policy to be reviewed
- Group had become too large, complex & devolved – but has great strengths
- Need to adopt culture of transparency and accountability
- Launching first phase of Group transformation
 - too much cost, too little cash generation – significant opportunity
- Outstanding Investments business - integral to Group's business model

KPMG Review (1)

- Review focused on bidding and tendering disciplines, commercial controls, contract value and cost forecasting, and project reporting
- Sample: 127 projects, comprising c.36% of CSUK's 2014 revenue

Key findings

- Issues principally restricted to previously highlighted delivery units
- These contracts account for less than 10% of CSUK 2014 revenues.
- Root causes of poor operational performance:
 - Bidding
 - Commercial and contract management
 - Accuracy of cost and programme forecasting

Recommendations

- More rigour in tender assessments
- Improve accountability for project performance
- Accuracy and timeliness of forecasting
- Improve and reinforce Group policies

KPMG Review (2)

Financial impact

- Board expects to reduce 2014 UK construction profits by a further £70 million, comprising:
 - £20 million relating to the difference between the reported contract positions, as at August 2014, and KPMG's assessment as at the same date; and
 - £50 million relating to an assessment of contract forecasts and subsequent deterioration in project performance up to the end of December 2014.
- In addition, as recommended, the Board will assess the overall level of contract risk provisions in the UK construction business in light of the operational issues identified and will announce the outcome at the full year results in March

Valuation of Investments Portfolio

Summary

- Directors' Valuation (DV) of the Investments Portfolio increased to £1,300 million
- Two additional sources of value for shareholders.
 - Pipeline of future bidding opportunities
 - Synergies from the Investments business being an integral part of the Group
- Investments division generates value for other parts of the Group and provides an important presence as an owner and operator in the infrastructure market
- Strategy of actively managing the Investments Portfolio maximises returns for the Group, while providing underlying strength to the balance sheet

Trading Update

- Excluding the impact of the KPMG findings in Construction Services UK, there has been no net material change in underlying trading across the Group as a whole, since the last trading update on 18 November 2014
- However, within this the mechanical and engineering joint venture in the Middle East continues to operate in challenging markets, whilst the highways maintenance business in Support Services has performed strongly.
- Year end order book to be slightly lower than the third quarter, which stood at £11.7 billion.
- The Group ended 2014 with a net cash balance of approximately £180m

Leo Quinn

Concluding remarks

Balfour Beatty has great strengths

- Depth of engineering capability, passionate people
- Strong customer relationships
- Substantial upside potential in UK Construction; material exposure to UK recovery
- Outstanding Investments business at heart of business model

The Group's issues are fixable

- Launch initial phase of transformation - reduce costs, drive cash generation
- Create a culture of transparency and accountability - takes time and discipline
- Commit to keeping our people and markets informed on the journey
- Group has a strong net cash position of approximately £180 million at the year-end, and a £1.3 billion Investments Portfolio

Significant opportunity to capture Group's full value for our shareholders

QUESTIONS & ANSWERS