



2016 half-year results presentation

17th August 2016

Balfour Beatty

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Leo Quinn
Group Chief Executive

Agenda



Leo Quinn



Phil Harrison



Leo Quinn

Build to Last: Financial Highlights

- Order book £12.4bn, up 7% at constant exchange rates
 - maintaining disciplined bidding practices
- Underlying revenue £4,024m
- Underlying profit before tax £7m (2015: £130m loss)
- Net cash £115m, following continued working capital discipline
- New pension deficit payments plan agreed in principle
 - £182m to be paid over 8 years (previous agreement: £376m)
- Dividend reinstated with interim payment of 0.9p



Demonstrating progress under Build to Last

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Build to Last: Programme Highlights

- On track to achieve £200m cash in : £100m cost out
- Continued simplification of Group
- Further action to upgrade leadership
- New process and systems landscape delivering benefits
- Cultural change gathering momentum – building on Zero Harm



Delivering direction, visibility and control

Phil Harrison

Group Chief Financial Officer

Headline numbers

	HY 2016	HY 2015	FY 2015
Revenue*	£4,024m	£4,085m	£8,235m
Profit / (loss) from operations*	£5m	£(120)m	£(106)m
Pre-tax profit / (loss) – underlying*	£7m	£(130)m	£(123)m
Pre-tax loss – total continuing	£(21)m	£(150)m	£(199)m
Underlying EPS*	2.0p	(19.4)p	(19.7)p
Dividends per share	0.9p	-	-

	HY 2016	FY 2015	HY 2015
Order book*	£12.4bn	£11.0bn	£11.3bn
Directors' valuation	£1,249m	£1,244m	£1,252m
Net cash‡	£115m	£163m	£260m

* from continuing operations, before non-underlying items

‡ excluding infrastructure concessions (non-recourse) net debt and £14m cash reported within assets held for sale

Order book

£bn	HY 2016	FY 2015	HY 2015
Construction Services			
US	4.7	4.1	3.8
UK	2.1	1.9	2.0
Rail	0.2	0.2	0.2
Far East	1.6	1.2	1.3
Middle East	0.5	0.5	0.4
	9.1	7.9	7.7
Support Services			
Transportation	1.7	1.5	1.8
Utilities	1.6	1.6	1.8
	3.3	3.1	3.6
Total	12.4	11.0	11.3

£bn	HY 2016	HY 2015
0-6 months	3.3	3.3
6-18 months	4.8	4.1
18-30 months	2.0	1.3
30 months+	2.3	2.6
Total	12.4	11.3

Group order book grew by 13% (7% at CER) to £12.4bn.

Construction Services grew by 15% (7% at CER) driven by growth in UK & Far East.

UK Construction grew by £0.2bn as ABNC converted to firm orders.

Support Services growth of 6% driven by transportation.

From continuing operations

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Construction Services

£m	HY 2016		HY 2015		FY 2015	
	Revenue	PFO	Revenue	PFO	Revenue	PFO
US	1,632	12	1,483	(41)	3,097	(22)
UK	862	(66)	1,117	(145)	2,024	(187)
Rail	129	(3)	104	(4)	274	(5)
Overseas joint ventures						
- Far East	413	3	384	6	796	19
- Middle East	141	(6)	89	(25)	197	(34)
	3,177	(60)	3,177	(209)	6,388	(229)

Performance

Revenue

Construction revenues flat (-5% at CER).

US revenue increase driven by FX movements (+1% at CER).

UK revenue decline reflects selectivity and order book decline in prior year.

Profit from operations

US returned to profit, following losses in HY 2015.

UK losses significantly reduced compared to HY 2015.

From continuing operations, before non-underlying items

UK historical contracts impacting profit and cash

HY 2016: 81% of projects at practical or financial completion

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

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

Historical contracts as at	HY 2016	FY 2015	HY 2015
Continuing	17	36	61
Practical completion	13	24	18
Financial completion	59	29	10
Total	89	89	89

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

>90%

Support Services

£m	HY 2016	HY 2015	FY 2015
Revenue			
Transportation	257	314	628
Utilities	291	301	631
	548	615	1,259
Profit from operations	11	4	24

Performance

Revenue

Revenue declined as expected, due to contract phasing and regulatory cycles.

Transportation: lower volumes in Highways.

Utilities: decline in Power largely offset by Gas & Water.

Profit from operations

2% operating margin in HY 2016.

Margins normalised compared to HY 2015.

Before non-underlying items

Infrastructure Investments

£m	HY 2016	HY 2015	FY 2015
UK†	9	15	33
North America	14	12	25
Infrastructure Fund	-	1	3
Bidding costs and overheads	(5)	(14)	(24)
Pre-disposals operating profit	18	14	37
Gain on disposals	52	84	95
Investments underlying operating profit	70	98	132
Subordinated debt interest income	15	13	24
Infrastructure concessions' net interest	-	3	5
Investments pre-tax result	85	114	161

Performance

Business significantly simplified:

- disposal of BBIP for £48m
- exited Australia with Wollongong disposal.








Continued to invest £45m into new projects.

Directors' valuation maintained at £1.25bn, including BSF schools.

† including Singapore and Australia
Before non-underlying items

Infrastructure Investments

Successful period for wins

	FY 2015 projects	New wins in period	Projects sold	HY 2016 projects	Projects not yet closed
University / student accommodation	11			10	
OFTO	3			3	
Healthcare	6			6	
Military housing	21			21	
Transport	13			13	
Housing	5			7	
Energy	4			4	
Schools	7			-	
Other	3			4	
Total	73⁽¹⁾	3	8	68	6

⁽¹⁾ Two projects that were at preferred bidder are now included in Directors' valuation

Directors' valuation of Investments portfolio

£m			HY 2016	FY 2015
Opening valuation			1,244	1,300
Cash invested incl. BBIP investment		45		
Cash received – distributions	(43)			
– disposals	(82)	(125)		
		Net cash received	(80)	(125)
New project wins			2	45
Disposal gains against Directors' valuation			2	-
Unwind of discount on NPV			47	93
Operational performance movements			(20)	(87)
FX movements			54	18
Closing valuation			1,249	1,244
Number of projects included in portfolio			75*	73⁽¹⁾

* Includes the BSF portfolio of 7 schools projects which were disposed in HY 2016, as the cash proceeds had not been received. The cash is expected to be received in H2 2016

⁽¹⁾ Two projects that were at preferred bidder are now included in Directors' valuation

Non-underlying items

£m	Continuing	
Trading		
- ES	(4)	
- Rail Germany	1	(3)
Impairment & amortisation		
- Amortisation of acquired intangibles	(4)	
- Land impairment relating to Blackpool Airport	(2)	(6)
Restructuring & reorganisation		
- Build to Last transformation costs	(9)	(9)
Disposals & other		
- Gains on disposal of SSL & BBIP	6	
- Release of Trans4m provisions	9	
- Revised legal guidelines and settlements	(25)	(10)
Non-underlying items before tax		(28)

Half-year cash flow

£m	HY 2016	FY 2015
Operating cash flows†	(71)	(247)
Working capital	1	178
Infrastructure Investments		
- disposal proceeds	82	145
- new investments	(45)	(102)
Pension deficit payments	(29)	(66)
Other	14	36
Cash outflow	(48)	(56)
Opening net cash*	163	219
Movements in the year	(48)	(56)
Closing net cash*	115	163

£m	HY 2016	FY 2015
Working capital		
Inventory & WIP	14	27
Construction contract balances#	22	313
Trade & other payables	(25)	(236)
Trade & other receivables	(10)	74
Working capital movements	1	178

Period end	HY 2016	FY 2015
Debtor days	30	27
Creditor days	52	45

† before pension deficit payments

* excluding infrastructure concessions (non-recourse) net debt and £14m cash reported within assets held for sale

including provisions

Group balance sheet

£m	HY 2016	FY 2015	HY 2015
Goodwill and intangible assets	1,122	1,066	1,059
Working capital*	(879)	(890)	(965)
Net cash (excluding infrastructure concessions)†	115	163	260
Investments in joint ventures and associates	583	671	699
PPP financial assets	432	402	365
Infrastructure concessions – non-recourse net debt	(388)	(365)	(327)
Net retirement benefit liabilities	(96)	(146)	(231)
Other assets & liabilities	(59)	(75)	(9)
Equity holders' funds	830	826	851

* £11m movement is different to the cashflow movement of £1m inflow (per previous slide) due to foreign exchange, BSF portfolio disposal proceeds not yet received and non-current working capital movements
 † excluding infrastructure concessions (non-recourse) net debt and £14m cash reported within assets held for sale

Leo Quinn
Group Chief Executive

Build to Last: Phase One

Laying the foundation for future, managed growth



Simplifying the business

Streamlining structures

Strengthening leadership

Clear direction

Improving governance and processes

Short interval control

Changing the culture

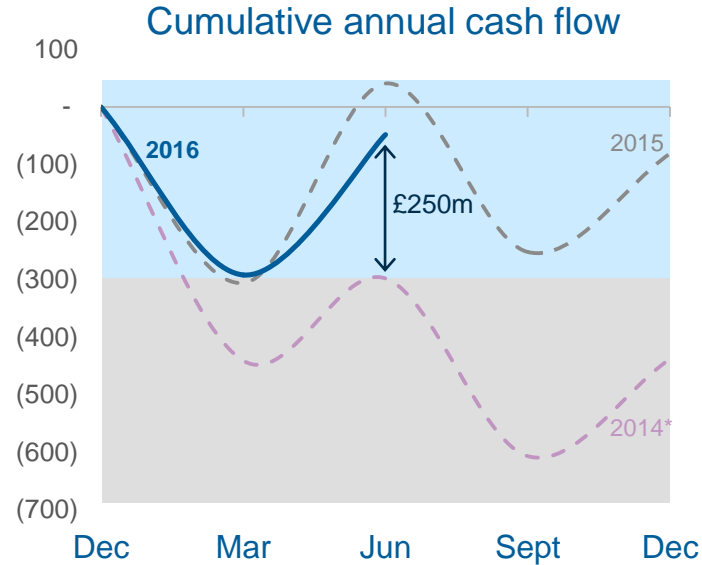
Measurement and transparency

18 months into 24-month self-help plan

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Build to Last – LEAN

Phase One target: **£200m cash in:** £100m cost out



* Adjusting for the sale of Parsons Brinckerhoff

Cash is our Compass:

- £250m cash flow improvement versus 2014
- Operating losses substantially reduced
- Established working disciplines maintained
- Leveraging internal assets and expert capability

Investment portfolio – flawless execution

- 10 asset disposals, 3 new project wins
 - £82m cash disposal proceeds; £45m cash invested

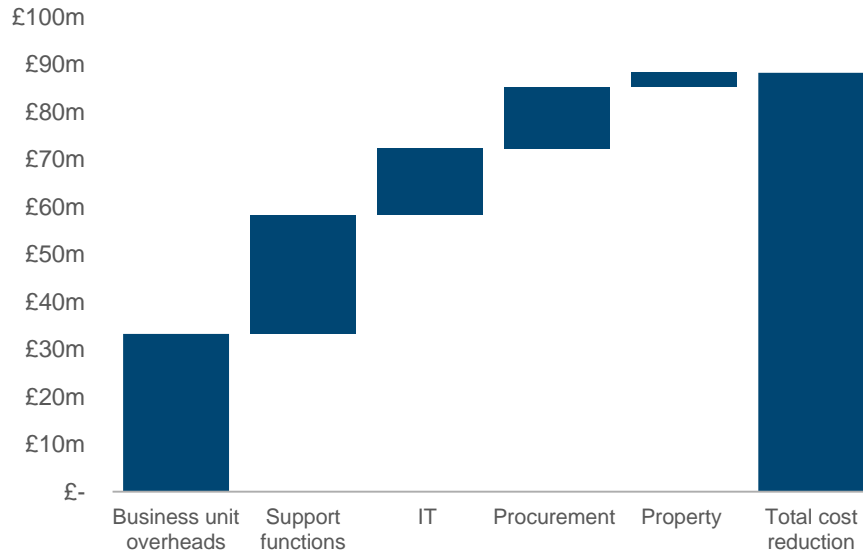
Maintained cash disciplines

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Build to Last – LEAN

Phase One target: £200m cash in: **£100m cost out**

£88m annualised savings since 2014



- Continued simplification of the business
 - US Construction under single leader; unifying the US back office functions
 - divested BBIP and exited Australia
 - 952 indirect net headcount reduction
- Responsive enabling IT support organisation
 - services brought back in-house
 - platform rationalisation
- New Mobilisation Hub: delivers consistent and efficient job start up and close down

On course to deliver £100m cost out

Build to Last – EXPERT

Recruit

- Relentlessly upgrading leadership
- Maintaining The 5% Club strategy: investing in the next generation

Train

- Started journey to build world-class project management capability
- Leadership forums across Balfour Beatty: project management, commercial, engineering
- Customer problem solving Hackathons: High performance Balfour Beatty and customer teams

Retain

- Engineering career paths established
- Improved labour utilisation across contracts
- My Contribution engaging employees to drive improvement >5,000 ideas in first year
- Facilities upgrade and consolidation



Building our market-leading capability

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Build to Last – TRUSTED

Disciplined, business-like contracting provides oversight and governance

- 81% of legacy contracts at practical or financial completion
- Gated lifecycle embedded across the business
 - more selective UK regional construction: c.250 live projects (2015: c.450)
- New process and systems landscape delivering benefits

Continuing customer confidence

- 13% order book growth: improved win rate and qualifying – strong pipeline of Awarded But Not Contracted
- Continuing to win landmark contracts: Caltrain rail (US\$697m), Heathrow Airport baggage systems upgrade (£170m), M20 lorry area (c.£130m)
- Customer satisfaction 89% (FY 2015: 82%)

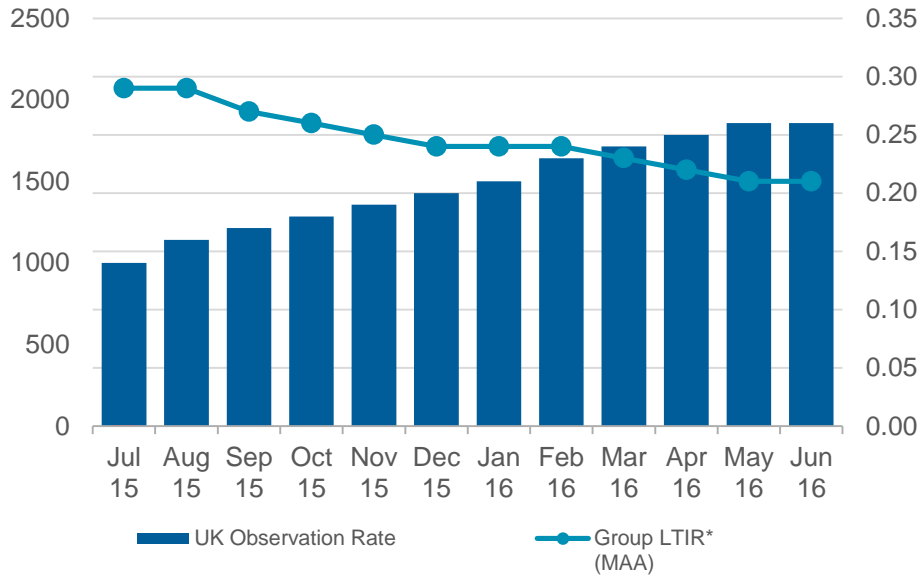
Maintaining balance sheet strength

- £115m net cash at HY 2016
- £1,249m Investments portfolio

Rapidly improving control and execution

Build to Last – SAFE for all: always our Number 1 priority

Group Lost Time Injury Rate* vs UK Observations



- Leading indicators trending in a positive, upwards direction
 - Lost Time Injury Rate* improved to 0.21 (FY 2015: 0.24)
- Group-wide behavioural safety best practice established transforming culture
 - proactive approach to health and safety: Zero Harm – Making Safety Personal
 - founding member of the UK Health in Construction Leadership Group – delivered the UK Health Summit in January 2016
- UK Health & Safety and Environmental sentencing guidelines: greatly increased fines

Our license to operate

* excluding international joint ventures

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Market outlook

MARKET GROWTH



UK CONSTRUCTION ~£60bn market

- Strong pipeline of major projects (Highways, HS2, Energy, Airports)
- Tall buildings



US CONSTRUCTION ~£80bn market

- New transportation bill in Infrastructure
- Order book growth in Building



INTERNATIONAL JVs ~£13bn market

- Strong residential market and civils pipeline in Hong Kong
- Difficult environment in Middle East



SUPPORT SERVICES ~£20bn market

- Pick-up in medium term as regulatory periods bed in (Rail, Gas & Water, Power)
- Power cabling & offshore



INVESTMENTS ~£6bn market

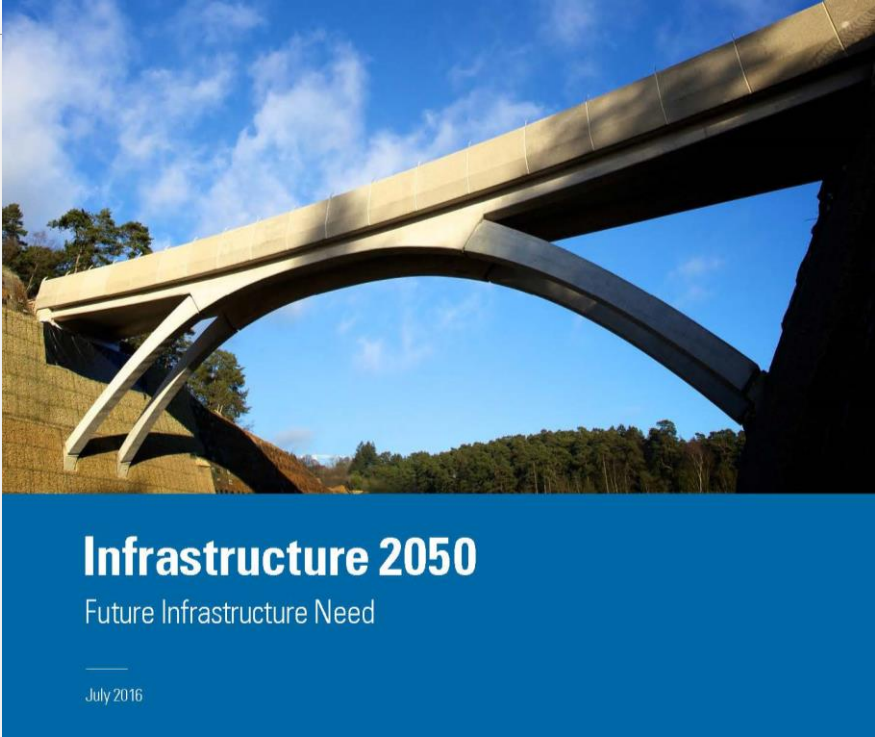
- Pipeline of opportunities continues to expand

HIGH-QUALITY PROJECTS

**SPECIALIST DELIVERY CAPABILITIES BECOMING INCREASINGLY SCARCE
SELECTIVE BIDDING TO REDUCE RISK, SECURE BETTER TERMS AND IMPROVE MARGINS**

Market demand remains strong – Brexit uncertainty

Infrastructure outlook



Demand driven opportunity

The Build to Last journey

Phase One (2015-16) - Laying the foundation for future, managed growth

Phase Two (2017-18) - Industry-standard margins

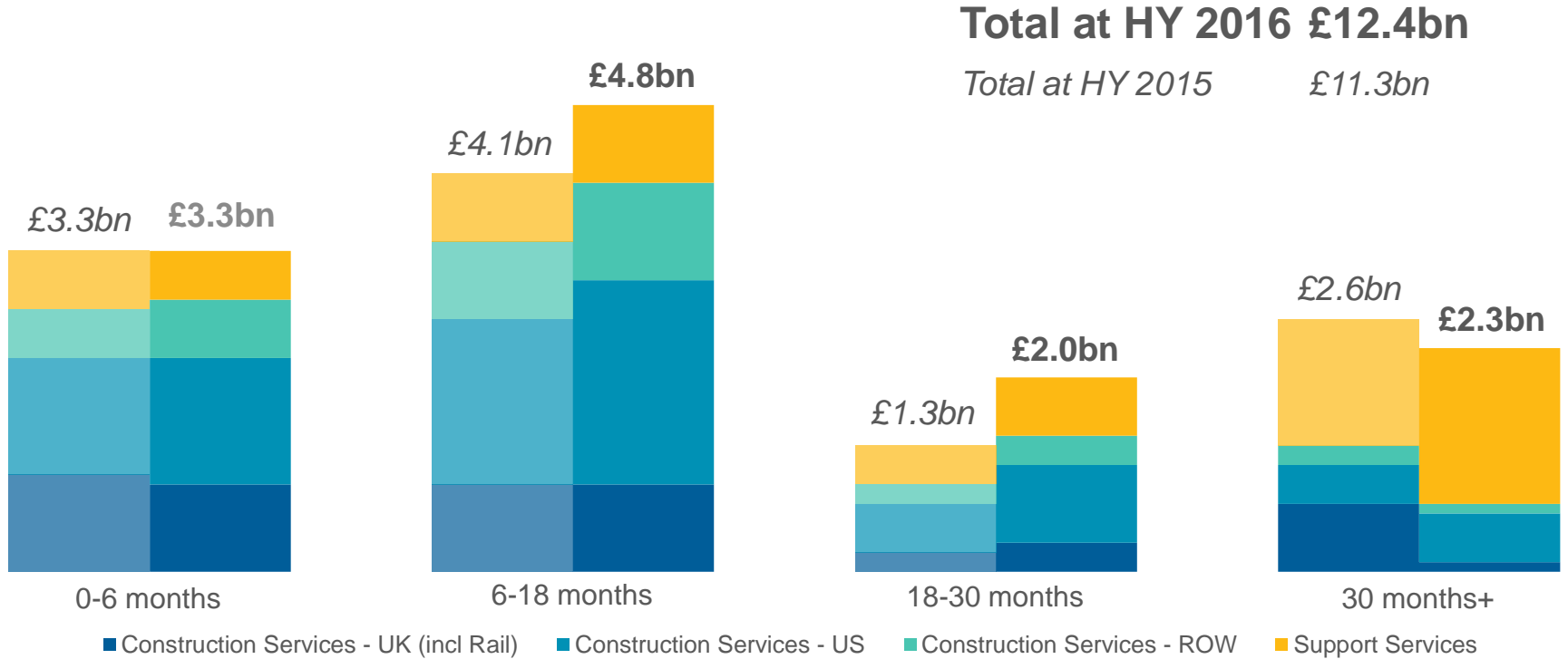
Phase Three (2019+) - Market-leading strengths and performance



Transformation through steady and consistent progress

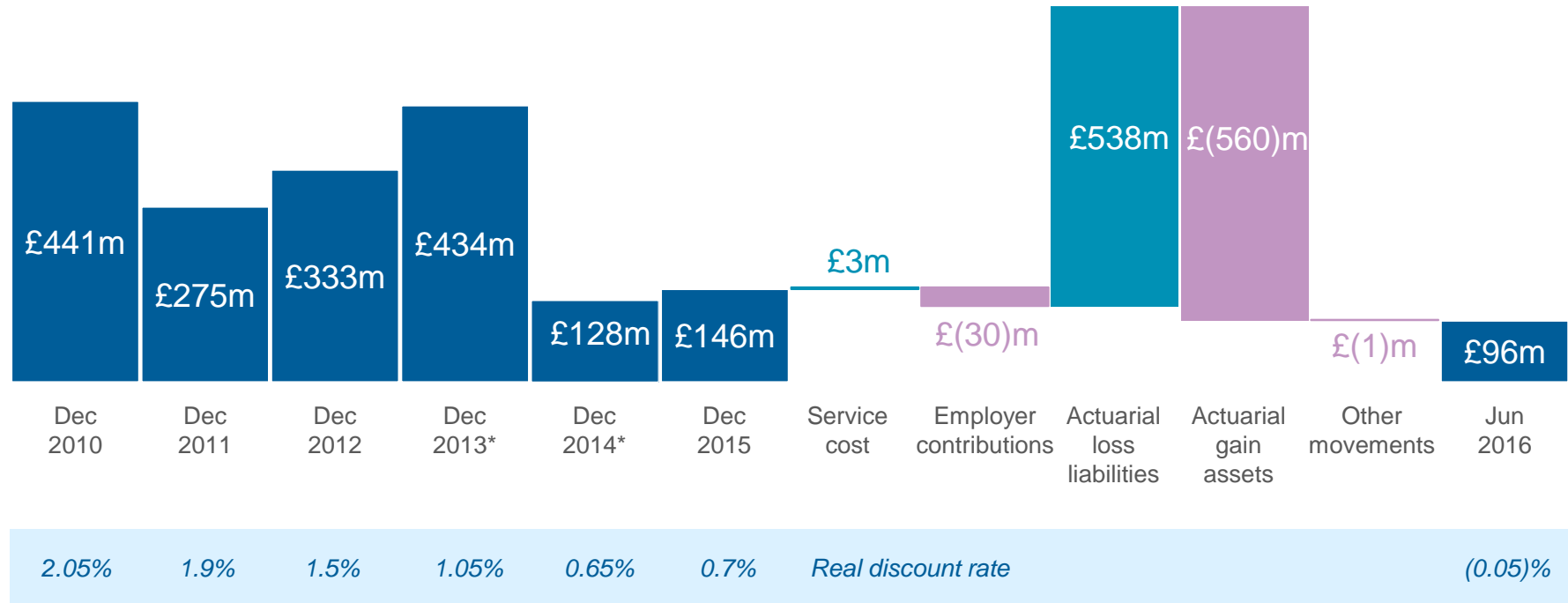
Appendix

Order book phasing compared with a year ago



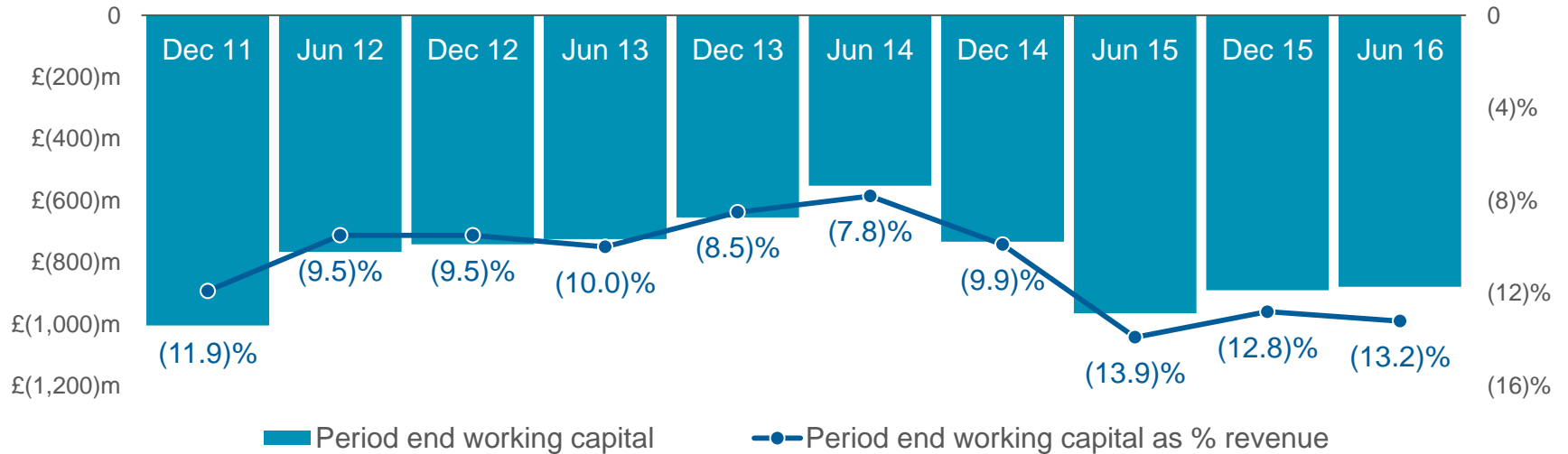
From continuing operations

Pension obligations – balance sheet movement



* from continuing operations

Working capital – Group



<i>Debtor days</i> [^]	52	52	58	59	42	49
<i>Creditor days</i> [^]	107	105	108	100	91	99
<i>Debtor days</i> ¹	31	26	29	29	27	30
<i>Creditor days</i> ¹	73	67	71	46	45	52

From continuing operations including non-underlying

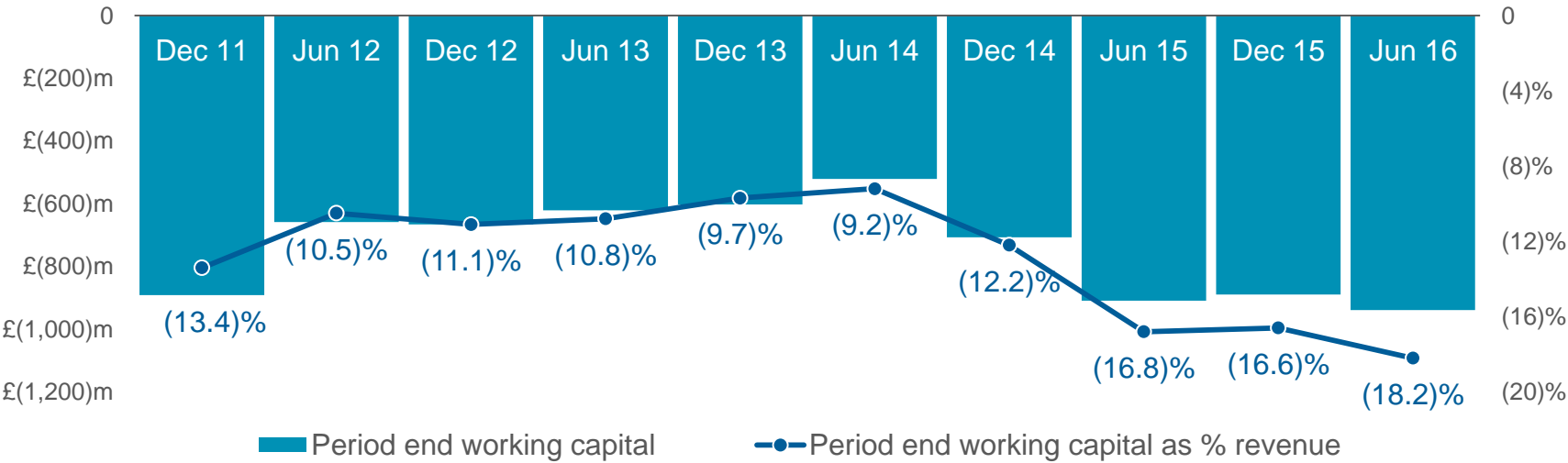
June 2014 and earlier figures restated to remove Professional Services and include Rail Germany

[^]Debtor days include Current trade & other receivables, Due from construction contract customers and Due to construction contract customers. Creditor days include Trade and other payables

¹Debtor days include Current trade receivables. Creditor days include Current trade and other payables, excluding accruals

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Working capital – Construction Services



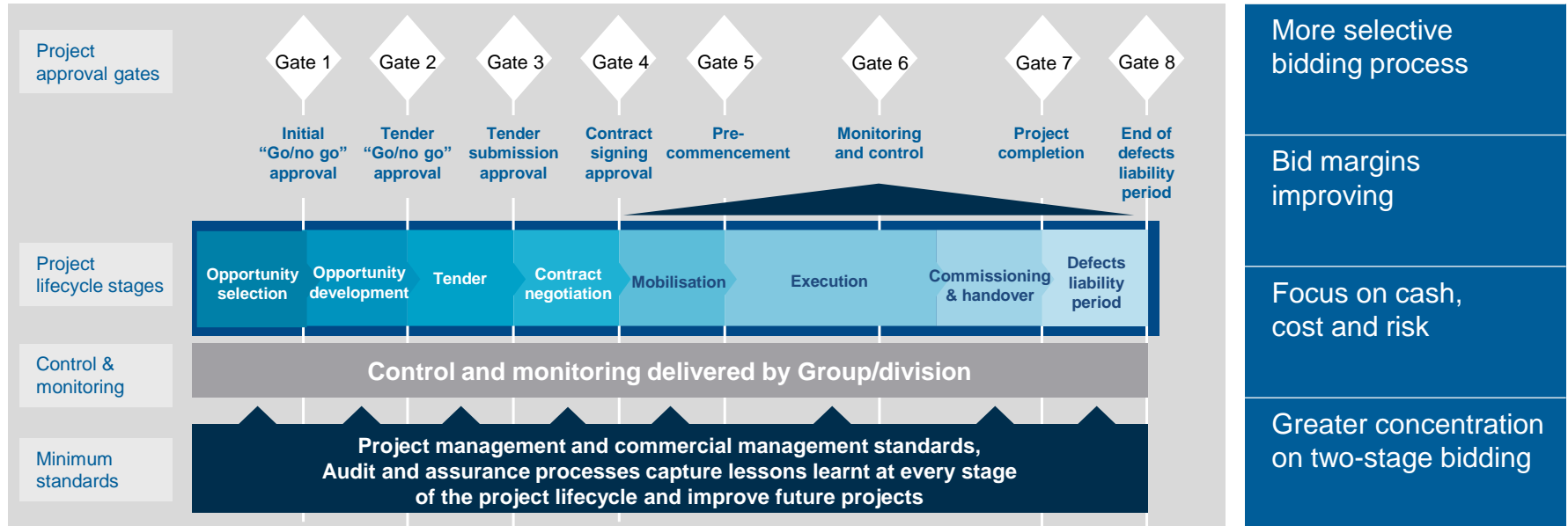
From continuing operations including non-underlying
 June 2014 and earlier figures restated to include Rail Germany

Net interest cost

£m		HY 2016	HY 2015
Subordinated debt interest receivable	15		
Interest on PPP financial assets	12		
Interest on non-recourse borrowings	(12)	15	16
Net finance costs – pension schemes		(2)	(2)
Other interest receivable	1		
Other interest payable	(5)		
FX gain on US deposits	12	8	(6)
US private placement		(6)	(6)
Convertible bonds			
- finance cost	(3)		
- accretion	(3)	(6)	(6)
Preference shares			
- finance cost	(6)		
- accretion	(1)	(7)	(6)
Net interest cost		2	(10)

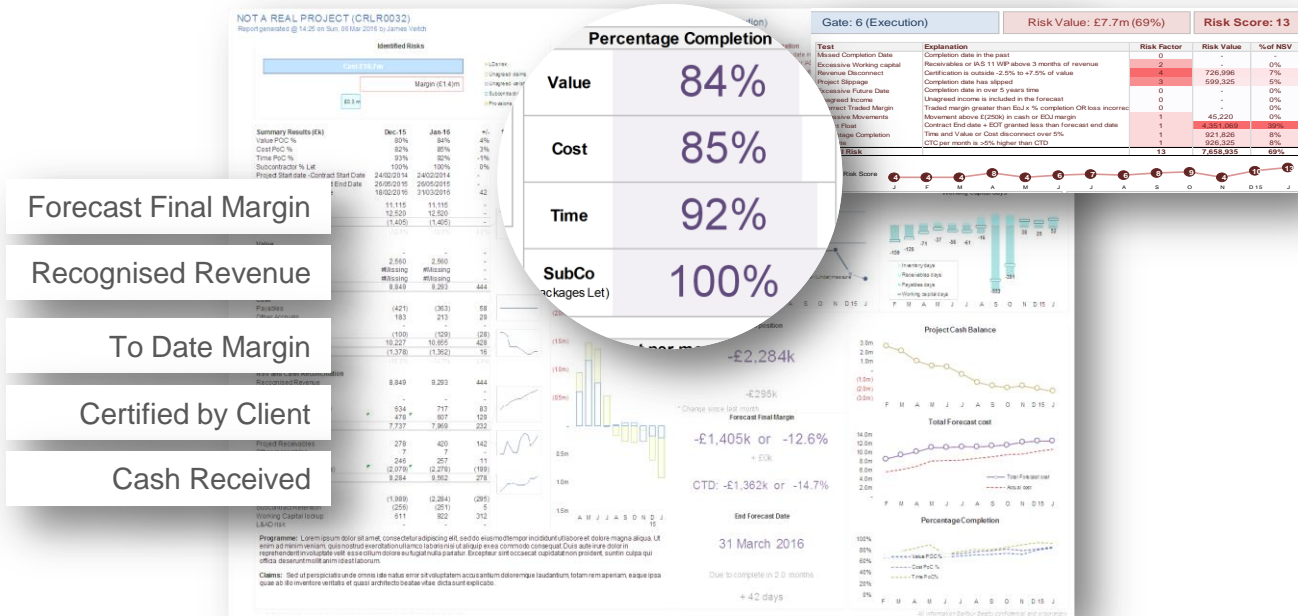
Build to Last

Gated business lifecycle



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Standardised project reports



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