

Balfour Beatty

2014 full-year results presentation

25 March 2015



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LEO QUINN

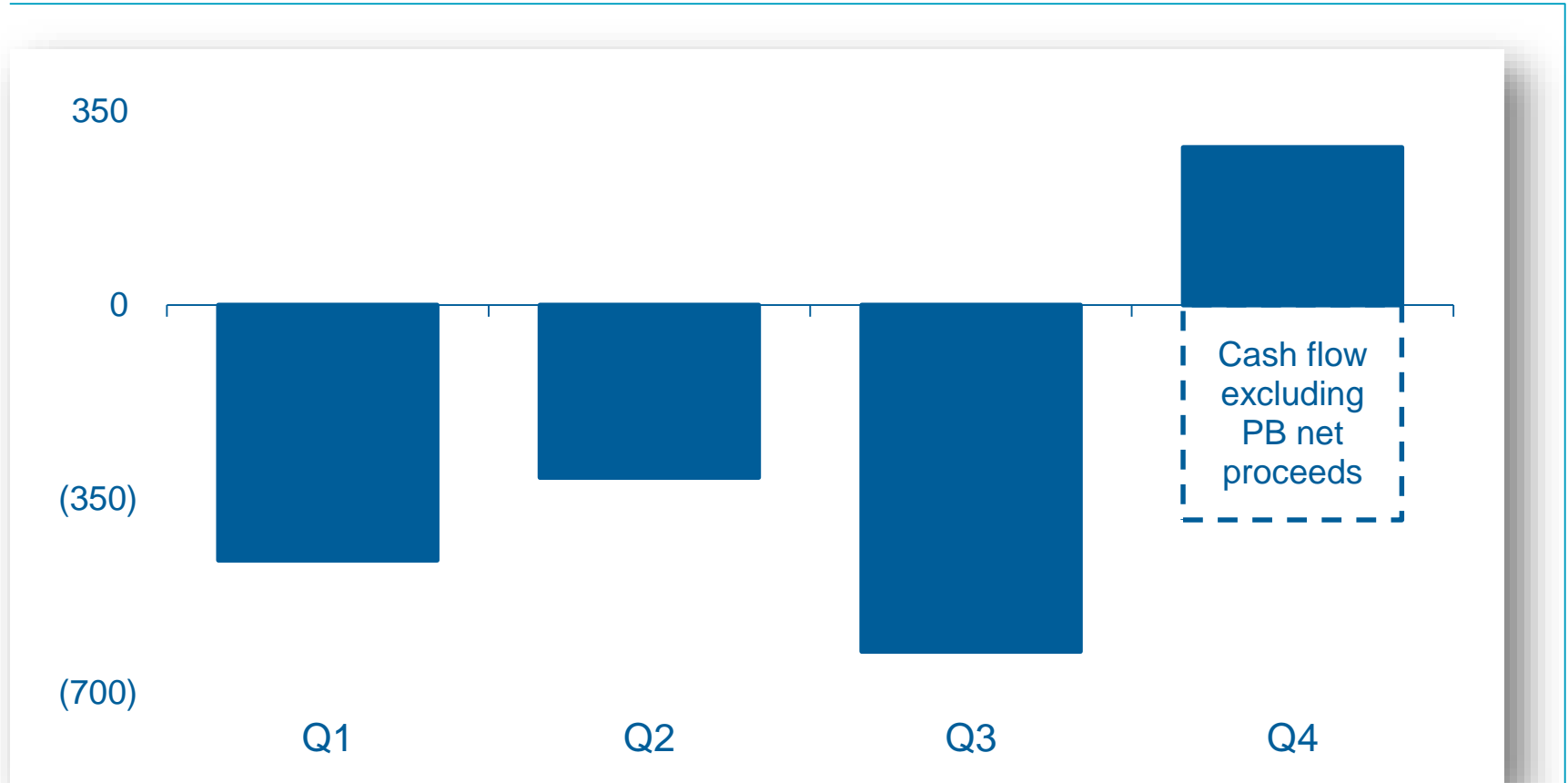
Chief Executive Officer

A complex transformation

- 2014 exposed legacy issues – complex devolved Group, poor processes and controls, costs not managed
- Retained strengths: strong brand, great capability, committed and skilled people, customer confidence
- Review of the Group not finished – only the first 12 weeks
- Problem contracts will largely complete during 24 month period of self-help
- Extensive cash commitments: cash cost of provisions, £110m equity for Investments

SHORT-TERM PERIOD OF UNCERTAINTY

Starting point: 2014 cumulative cash flow



CHANGING PROCESSES AND CULTURE TAKES TIME

What is required for first 24 months

- **Maintain balance sheet strength**
 - Cancelled £200m share buyback
 - Re-phased £85m pension fund committed payments over 8 years
 - Suspending the dividend: reinstatement expected March 2016 at an appropriate level
- **Maintain financial flexibility**
 - Underpinned by Investments income
 - Sale of mature Investment assets into a strong market
 - Build to Last; Phase One, “£200m cash in; £100m cost out”

**BUILD TO LAST
PHASE ONE: SELF-HELP**

FINANCIALS

Headline numbers

	FY 2014	FY 2013	Actual growth	Constant currency
Order book*	£11.4bn	£11.8bn	- 4%	- 7%
Revenue*	£8,440m	£8,478m	-	+ 2%
(Loss) / profit from operations*	£(58)m	£146m		
Pre-tax (loss) / profit*	£(80)m	£131m		
Underlying EPS*	(11.5)p	15.3p		
Directors' valuation	£1,300m	£766m		
Net cash / (debt)‡	£219m	£(66)m		
Full-year dividend	5.6p	14.1p		

Including Legacy ES contracts

Revenue [#]	£8,502m	£8,554m	- 1%	+ 2%
(Loss) / profit from operations [#]	£(146)m	£146m		

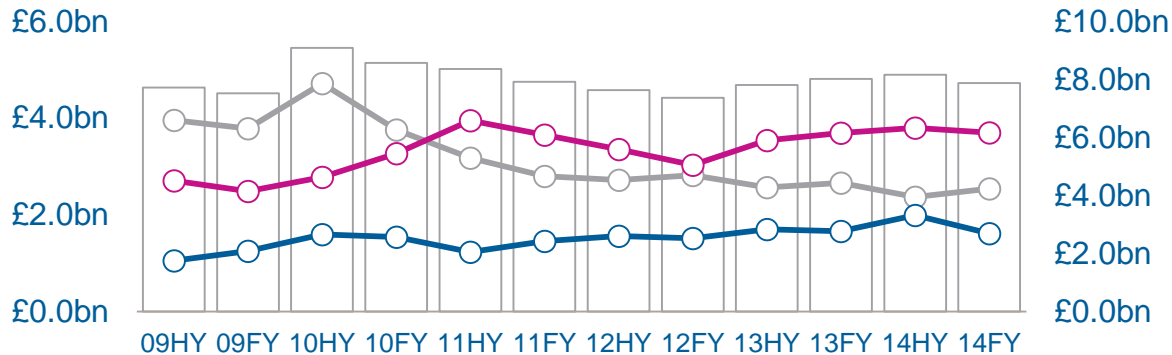
* From continuing operations, before non-underlying items

[#] From continuing operations, excluding Rail Germany

[‡] From continuing operations, excluding non-recourse net debt

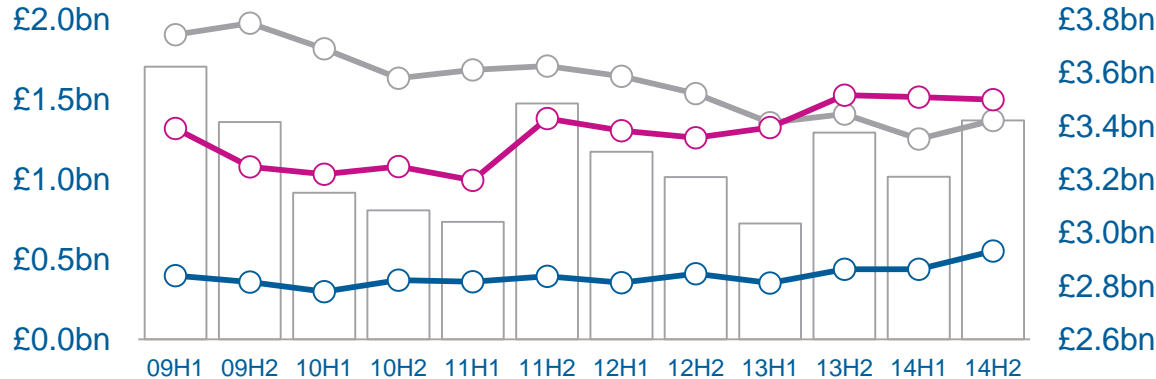
Construction Services

Order book



	FY14 Constant %	£bn	Constant currency
US	47	3.7	- %
UK	33	2.6	- 5%
RoW	20	1.6	- 3%
Total		7.9	- 3%

Revenue



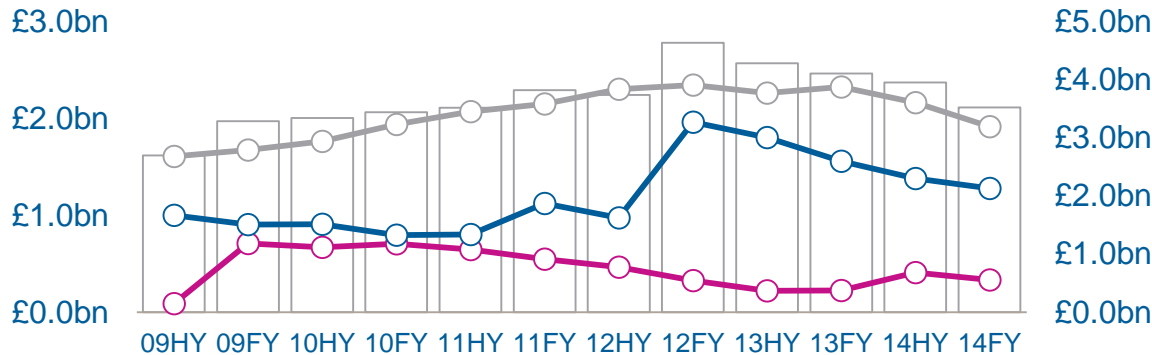
	FY14 Constant %	£bn	Constant currency
US	45	3.0	+ 5%
UK	40	2.6	- 5%
RoW	15	1.0	+ 24%
Total		6.6	+ 3%

Total
 UK
 US
 RoW

Left-hand axes represent lines by geography / Right-hand axes represents segment total bars
 13HY1 to 14HY2 presented on a constant currency basis
 Figures from 13HY exclude legacy ES contracts and include Heery

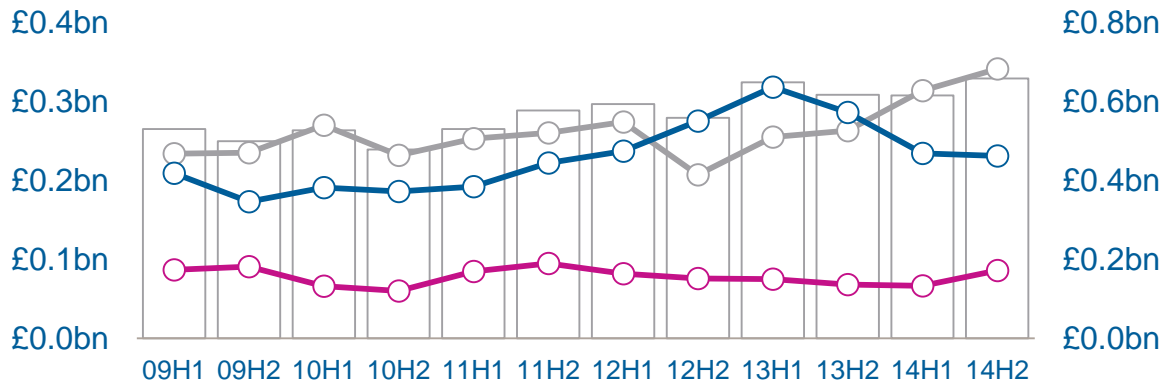
Support Services

Order book



	FY14 Constant %	£bn	Constant currency
Transport	54	1.9	- 18%
Power	37	1.3	- 18%
Water	9	0.3	+ 49%
Total		3.5	- 14%

Revenue



	FY14 Constant %	£bn	Constant currency
Transport	46	0.6	+ 35%
Power	39	0.5	- 26%
Water	15	0.2	+ 2%
Total		1.3	+ 1%

Left-hand axes represent lines by market / Right-hand axes represents segment total bars

Total
 Transport
 Water
 Power

Profit from operations – by segment

Construction Services*		Support Services*		Infrastructure Investments*		Corporate activities*		Total underlying*	
FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13
(209) -	18 0.3%	50 3.9%	55 4.3%	127 22.3%	102 16.8%	(26)	(29)	(58)	146 1.7%
<ul style="list-style-type: none"> UK underlying loss of £229m including £49m in ES US margin stable but remained low Middle East performance impacted by M&E contract write-downs Hong Kong market strong but profitability constrained by mix and delays 		<ul style="list-style-type: none"> Good performance in water and transportation, particularly highways services Reduced volumes in power Exit from Network Rail renewals contract with associated costs over £2m 		<ul style="list-style-type: none"> £93m of investment disposal gains Increased profits due to bid cost savings and IFRIC 12 improved cash flow expectations Reduced income in US as military housing construction comes to an end along with increased bid costs 				Certain legacy ES contracts	
								FY14	FY13
								(88)	-
								Total	
								FY14	FY13
								(146)	146 1.7%

* From continuing operations, before non-underlying items

Non-underlying items

£m	Continuing	Discontinued	Total
Trading			
- ES	(88)		
- Rail Germany	(24)	(112)	(112)
Impairment & Amortisation			
- Amortisation of acquired intangibles	(11)	(8)	
- Rail Germany impairment	(30)		
- Rail Italy impairment		(26)	
- Oracle	(21)		
- Other	(1)	(34)	(97)
Restructuring & reorganisation			
- UK Construction	(11)		
- Shared Service Centre	(14)		
- US Construction	(2)		
- Rail Germany	(5)		
- Other	(5)	(1)	(38)
Disposals & other			
- PB disposal		234	
- Other including corporate tax	(11)	19	242
	(223)	218	(5)

UK Construction write-downs

£m

1) Difference between the reported contract positions, as at August 2014, and KPMG's assessment as at the same date	(20)	
2) Assessment of contract forecasts and subsequent deterioration in project performance	(50)	
		Announced January 2015 (70)
3) Board assessment of the overall level of contract risk provisions in CSUK:		
– contract risk provision against specific contracts	(67)	
– contract risk provision against remainder of portfolio	(51)	
		Announced today (118)
		<u>(188)</u>
		Total write-downs <u>(188)</u>

Construction Services segment

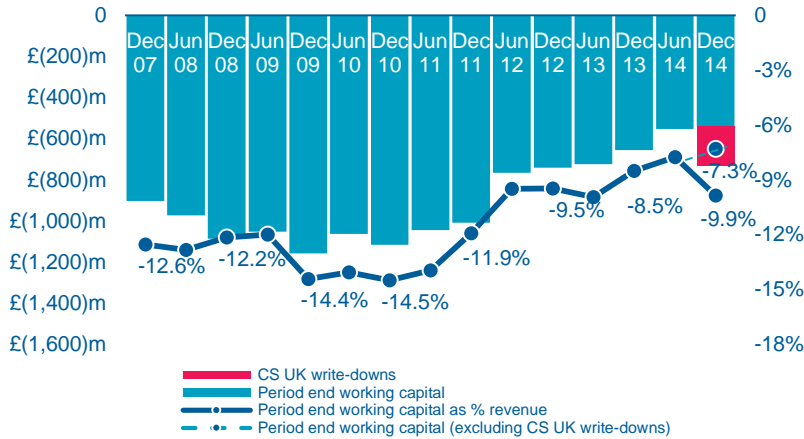
£m	FY 2014		FY 2013	
	Revenue	PFO	Revenue	PFO
US	2,996	29	2,997	27
UK (excl. ES)	2,229	(180)	2,373	(9)
ES – underlying [#]	121	(49)	136	(11)
Rail UK & International	368	(6)	388	(12)
Overseas joint ventures [#]				
- Middle East	177	(15)	129	6
- Far East [*]	706	12	571	17
	6,597	(209)	6,594	18
ES – non-underlying [#]	62	(88)	76	-
Total	6,659	(297)	6,670	18

** Includes Gammon and Sakti*

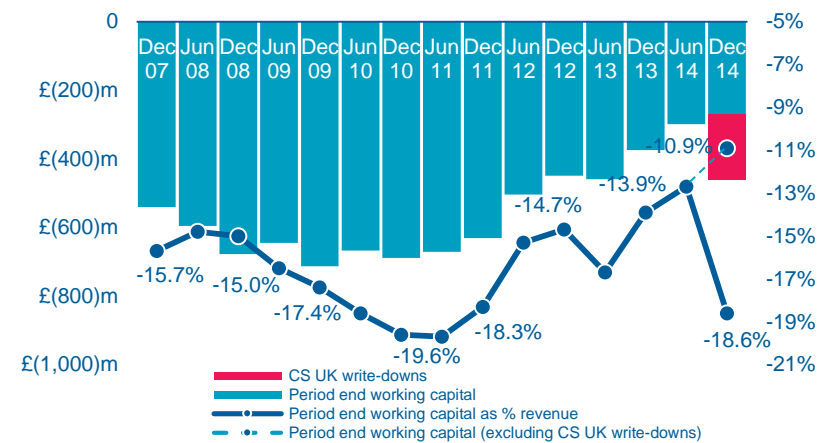
No corporate overheads allocated to ES or overseas joint ventures

Working capital – Summary

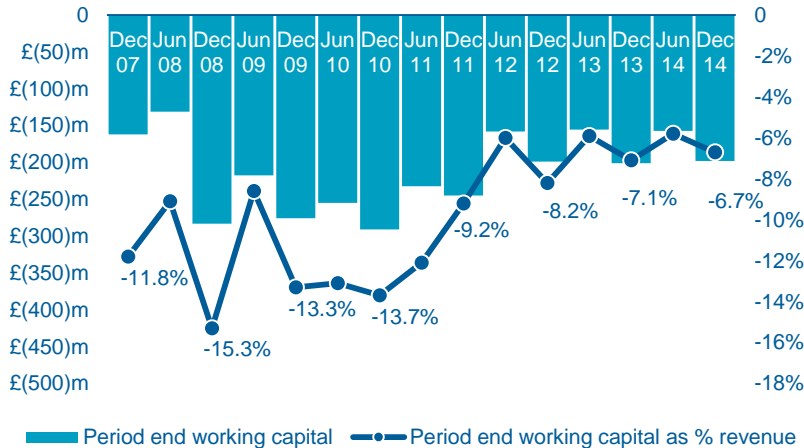
Group



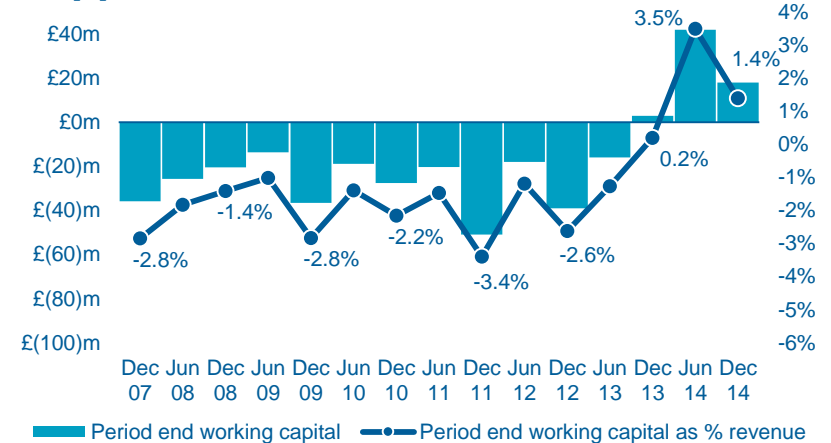
CS UK



CS US








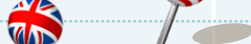







Support Services



From continuing operations including non-underlying

Infrastructure Investments

Successful period for closes and disposals

	Achieved financial close	Appointed preferred bidder	Total	Remain preferred bidder	FY 14 projects
University/student accommodation			4		6
OFTO			2		3
Hospitals			3		6
Military housing			1		21
Transport			1		13
Housing			3		2
Energy			1		3
Justice			1		1
Schools			-		8
Other			-		3
Total	11^(1,2)	5⁽³⁾	16⁽⁴⁾	2	66

- £73m invested in 2014, c£110m committed to be invested in 2015

⁽¹⁾ Includes 3 in 2015

⁽²⁾ 8 of these financial closes were also appointed preferred bidder in 2014

⁽³⁾ Includes 1 in 2015

⁽⁴⁾ Includes 4 in 2015

Directors' valuation – increased to £1.3bn

£m		FY 2014	FY 2013
Opening valuation		766	734
Cash invested incl. BBIP investment			
Cash received – distributions	(92)		
– disposals	(159)		
	Net cash received	(178)	(163)
Unwind of discount on NPV		78	74
New project wins		26	4
Disposal gains against Directors' valuation		58	45
Inflation, FX & operational gains		19	72
Closing valuation using previous assumptions		769	766
Change in discount rates		115	
Projected performance improvements		376	
Change in macroeconomic assumptions		40	
Closing valuation using revised assumptions		1,300	

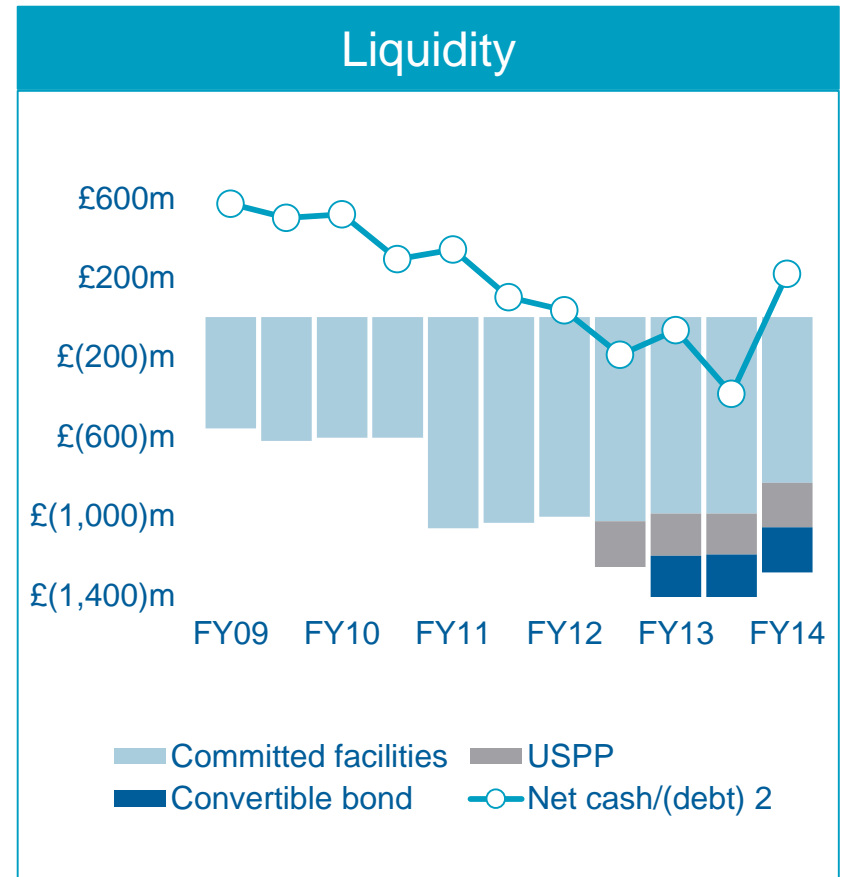
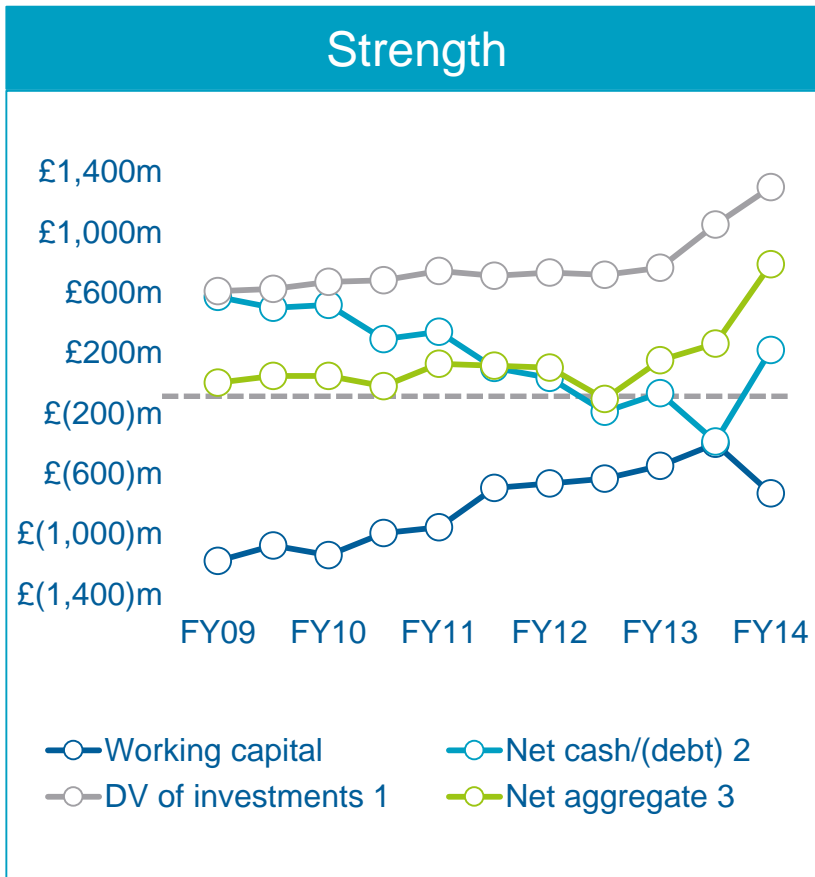
Cash used in operating activities

£m	FY 2014	FY 2013
(Loss) / profit from underlying operations	(58)	146
Share of JV profit	(55)	(71)
Depreciation	33	50
Pension deficit payments	(49)	(57)
Profit on disposal of infrastructure concessions	(93)	(82)
Working capital	26	(121)
Other	4	-
Cash used in underlying operating activities	(192)	(135)
Income taxes paid	(20)	(13)
Non-underlying items & discontinued operations	(160)	(27)
Cash used in operating activities	(372)	(175)
Disposal proceeds		
- Infrastructure Investments [#]	151	115
- Subsidiaries & other joint ventures [*]	701	140
Cash used in operating activities plus disposal proceeds	480	80

^{*} FY 2013 includes £1m received from the disposal of Balfour Sevan LLC

[#] Includes disposal of investment subsidiaries – 2014 Knowsley, 2013 CNDR

Managing the balance sheet



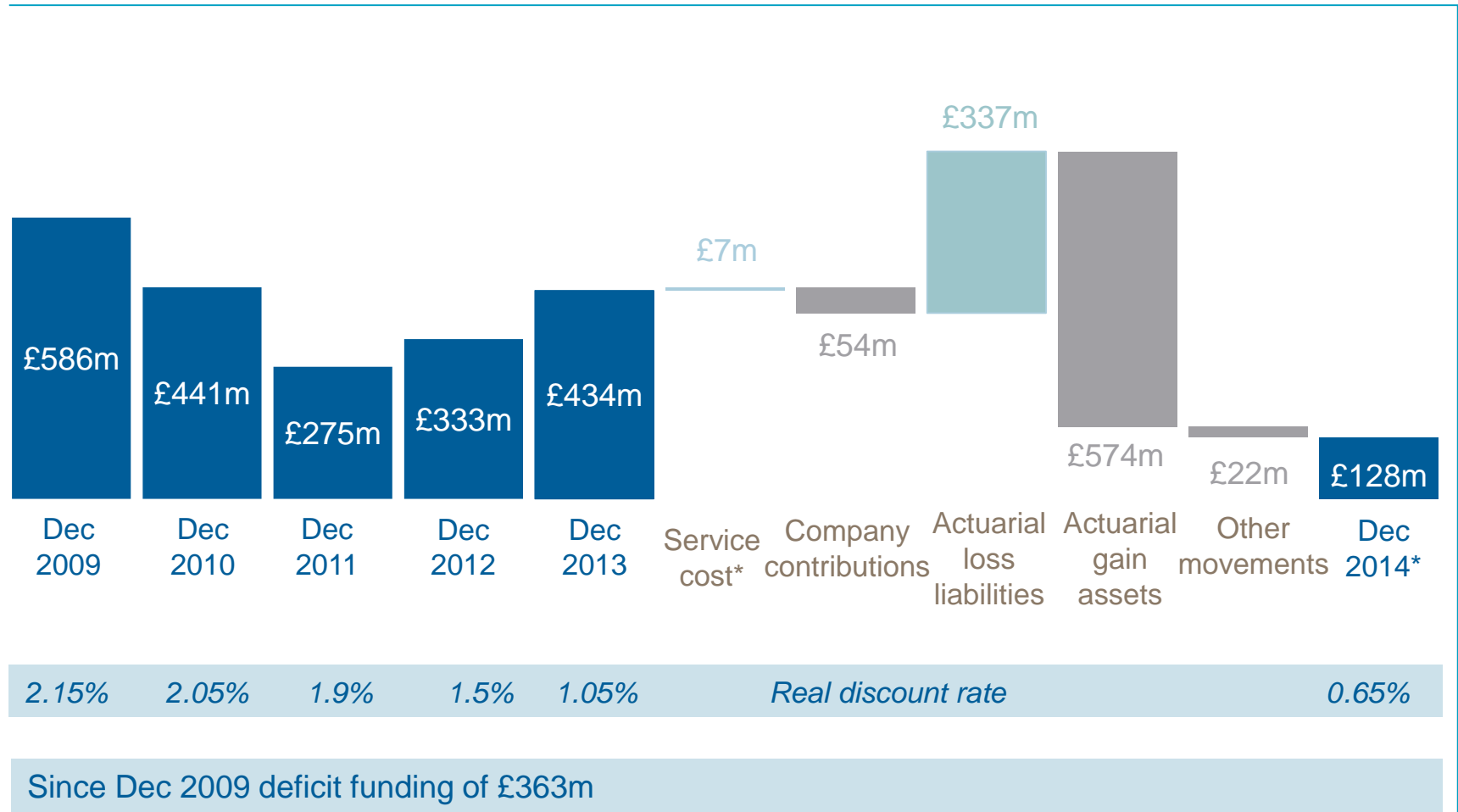
¹ Directors' valuation of investment portfolio

² Excluding net debt of infrastructure concessions

³ Aggregate of Directors' valuation of investment portfolio, net cash/(debt) and working capital

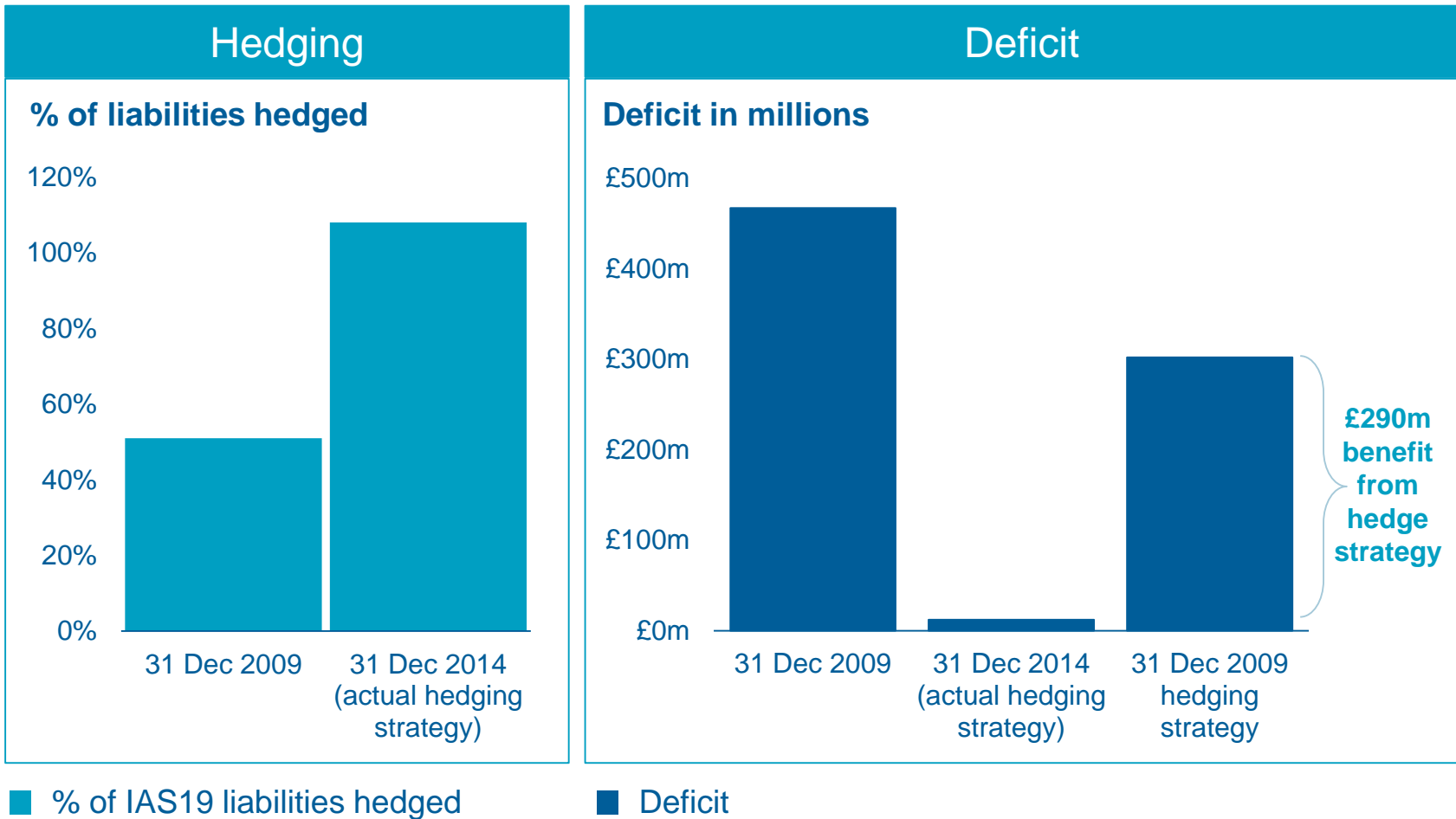
From continuing operations including non-underlying

Pensions – balance sheet movement



* From continuing operations

Benefit of hedging strategy on pension deficit



Relating to Balfour Beatty Pension Fund

Summary of 2014 performance

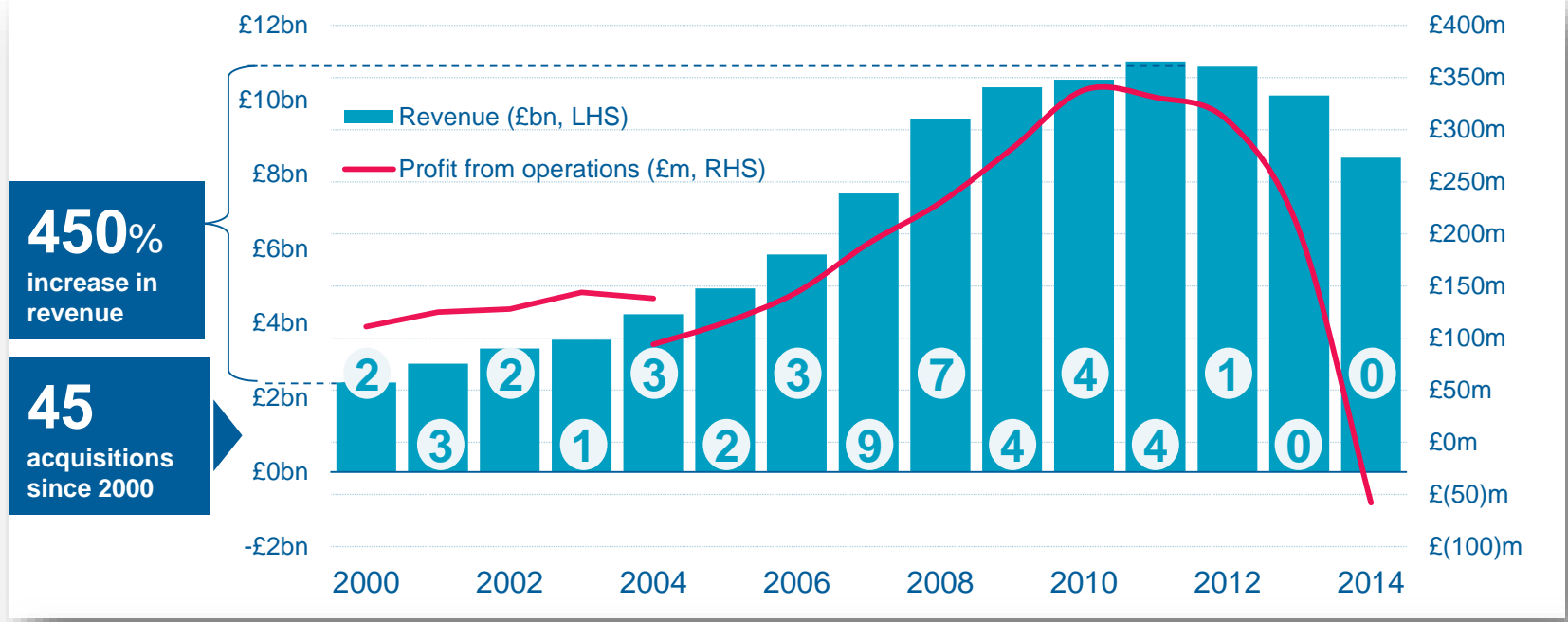
- Very disappointing UK construction performance and poor performance in Middle East
- Strong performance in Investments and Support Services
- Despite write-downs, ended the year with strong balance sheet:
 - PB sale proceeds resulted in Group closing with net cash of £219m
 - Investments portfolio valued at £1.3bn
 - Pension fund deficits improved by £306m to £128m

LEO QUINN

Chief Executive Officer

Understanding the problems – ‘forced growth’

- | | | | |
|---|------------------------------------|---|--|
| 1 | Group grew too quickly | ➔ | Financial & operational disciplines lost |
| 2 | Acquisitions not integrated | ➔ | Cost base & complexity multiplied |
| 3 | “Federated” management model | ➔ | Operational governance failings – contract terms |
| 4 | Market downturn exacerbated issues | ➔ | Took on magnified risk |



A FAILURE OF LEADERSHIP, NOT OF CAPABILITY

The fundamentals remain intact

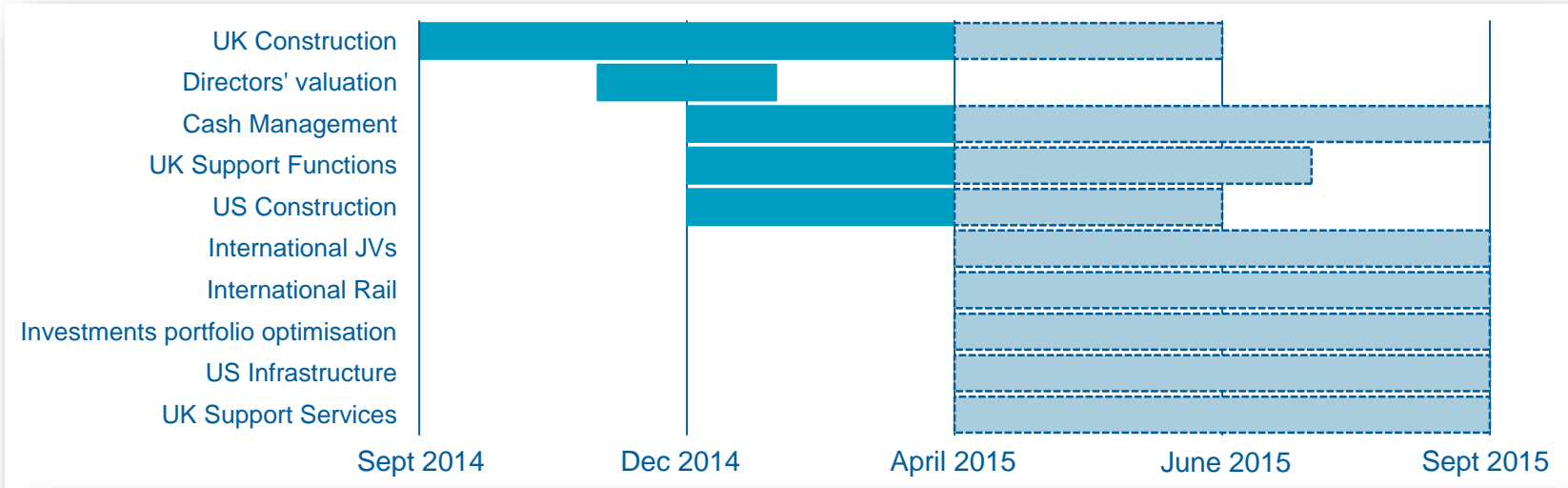
- Brand – remains strong
- Customers – remain supportive of Balfour Beatty
- Specialist engineering capability – significant project wins
- Material synergies between Construction, Services & Investments
- Employees embracing change

STRONG FOUNDATION FOR RECOVERY

The first 12 weeks

Reviews and actions underway
UK Construction
US Construction
Investments – Directors’ valuation
UK support functions
Cash management

What remains to be reviewed
UK Support Services
Construction – International JVs
Construction – US Infrastructure
Construction – International Rail
Investments – Portfolio optimisation

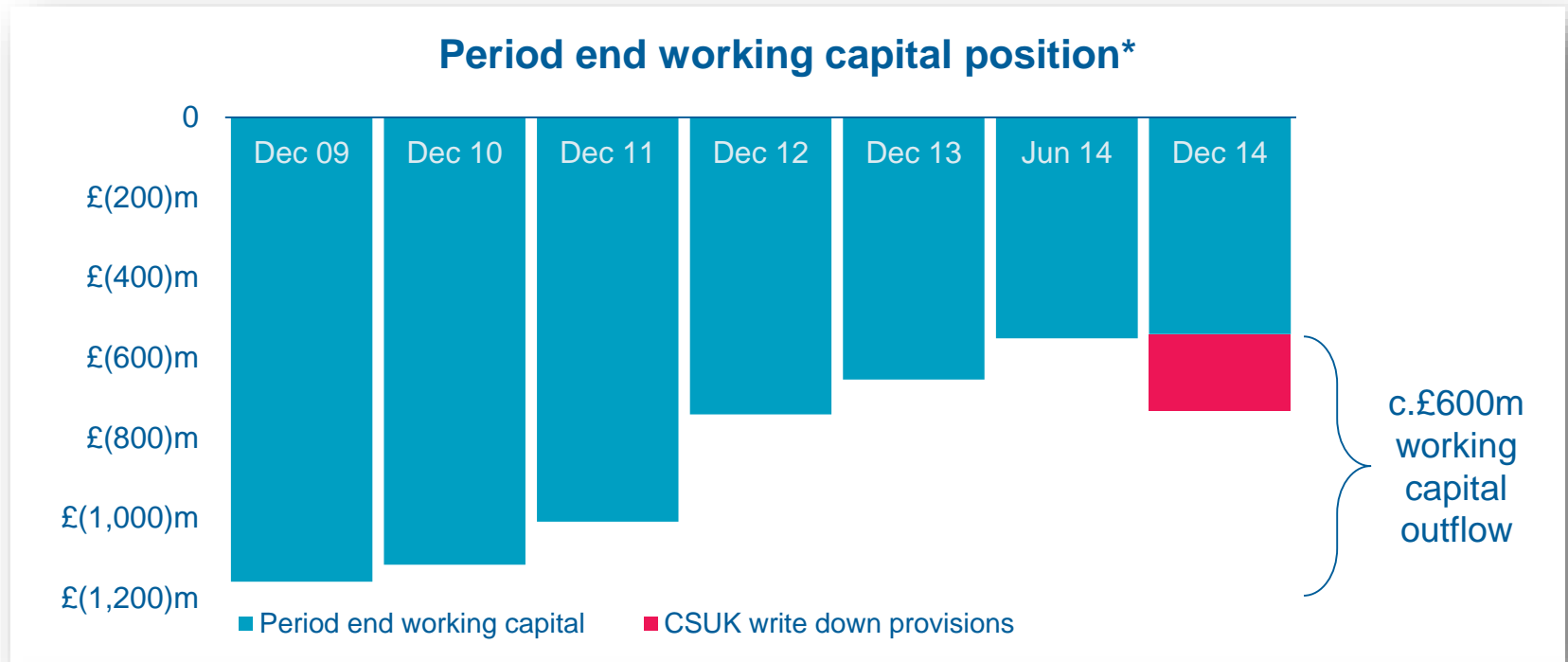


REVIEWS UNDERWAY ACROSS 70%¹ OF THE GROUP

¹ Measured by revenue

What are the opportunities?

- | | | | |
|----------|--------------------|---|---|
| 1 | Cost base too high | ➔ | Group-wide overheads c.1% of revenue above industry average |
| 2 | Major cash outflow | ➔ | c.£600 million working capital outflow peak to trough |
| 3 | Market outlook | ➔ | Activity rising (margins take longer) |



SIGNIFICANT 'SELF-HELP' OPPORTUNITY WITHIN OUR CONTROL

* June 14 and earlier figures restated to remove Professional Services and include Rail Germany

What are we doing about it?



Metrics

- Operating cash flow
- EBIT
- Employment engagement
- Employee retention
- Customer satisfaction
- Zero Harm

TRANSFORMATION PROGRAMME LAUNCHED

LEAN – What are the initial targets?

£200m cash in
versus 2014

- Levers:
 - Commercial management
 - Working capital
 - Claims management
 - Profitable revenue

£100m cost out
versus 2014

- Levers:
 - Enabling functions
 - IT, HR, Legal, Finance
 - Property
 - Procurement

**“BUILD TO LAST”
WHILST PRESERVING FRONT LINE CAPABILITY**

Actions to date

Leadership

- Board strengthened – Chairman , CEO, CFO
- New Group roles – Commercial, Procurement, IT
- UK construction – new COO for Regional & ES

Culture

- Replace “federated” with “One Balfour Beatty”
- My Contribution launching next month – continuous improvement
- Incentives aligned to programme goals

Programme delivery

- Build to Last programme office & governance
- Work-streams targeted and being tracked
- UK support functions consolidating
- Top 200 UK/US leaders signed up

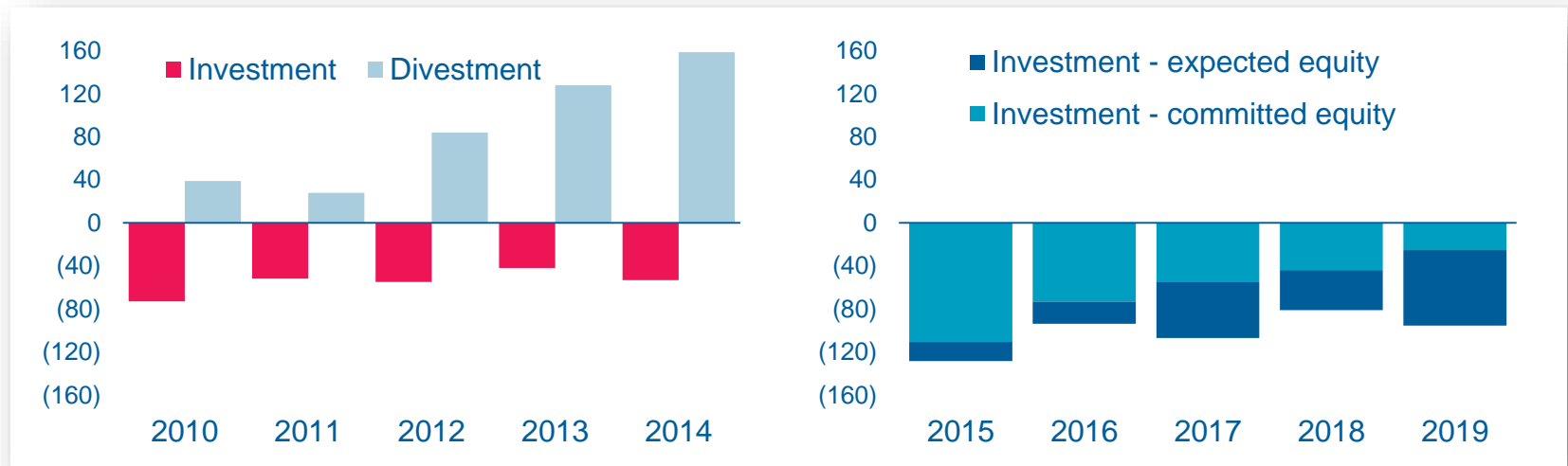
Investing in systems

- Focusing down Oracle implementation in UK construction
- Sales & cash dashboard
- Standardise management reporting

BUILDING RAPID MOMENTUM

Transformation “anchored” by Investments business

- Integral to Group business model - complements Construction and Support Services
- Directors’ valuation demonstrates value creation
- Short term, tactical sale of maturing assets provides financial flexibility
- Mid term, attractive cash earnings which underpin dividend progression
- Longer term, re-investment of sales proceeds will accelerate high quality returns



EXCELLENT POTENTIAL FOR SUPERIOR RETURNS

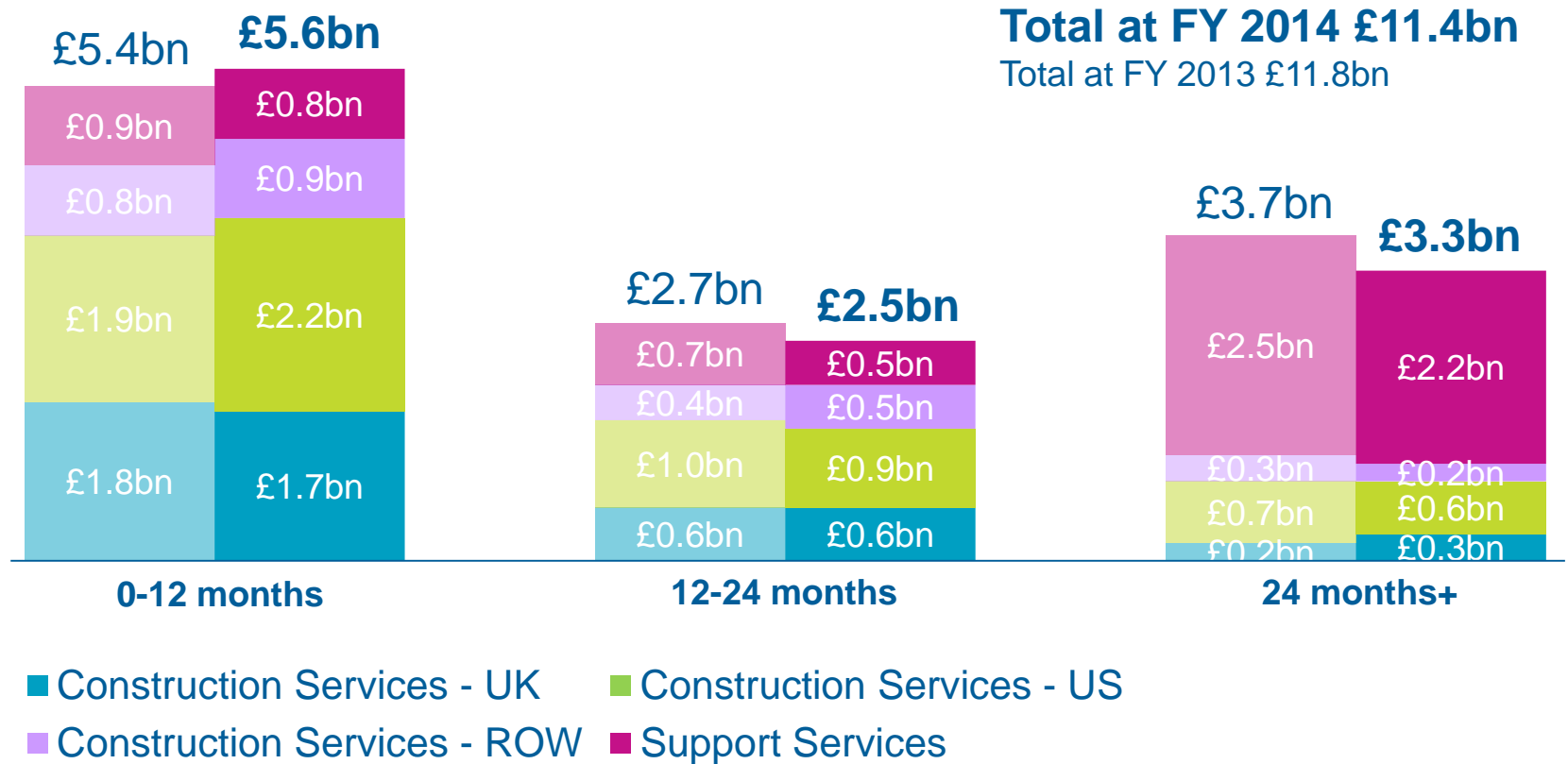
Build to Last

- Core strengths intact
- Continuing to win landmark projects
- Transformation programme has momentum
- Short-term challenges and uncertainties
- Maintain balance sheet strength
- Phase One: self-help to deliver £200m cash in / £100m cost out

RESTORE BALFOUR BEATTY TO STRENGTH

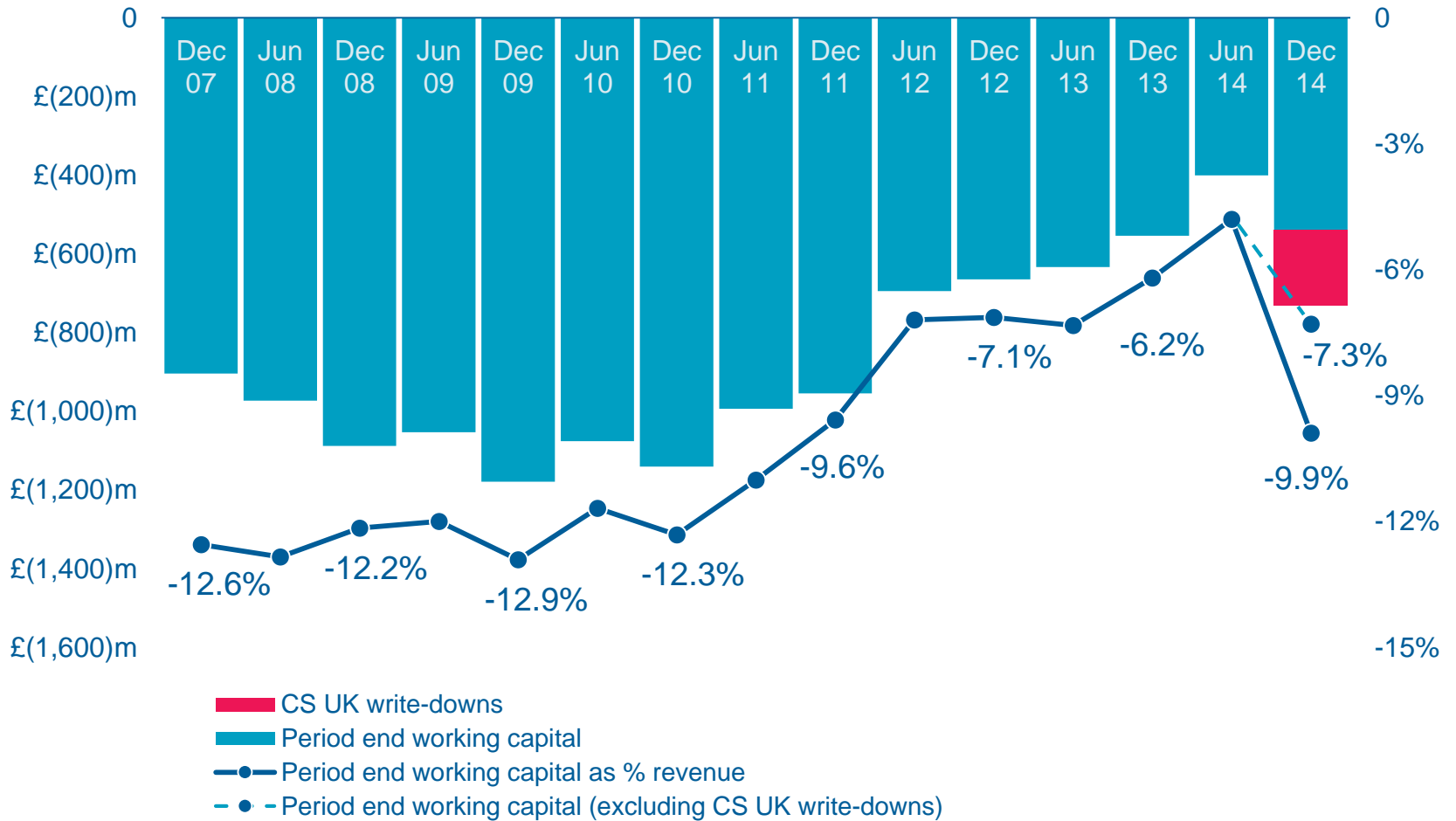
APPENDIX

Order book position compared with a year ago



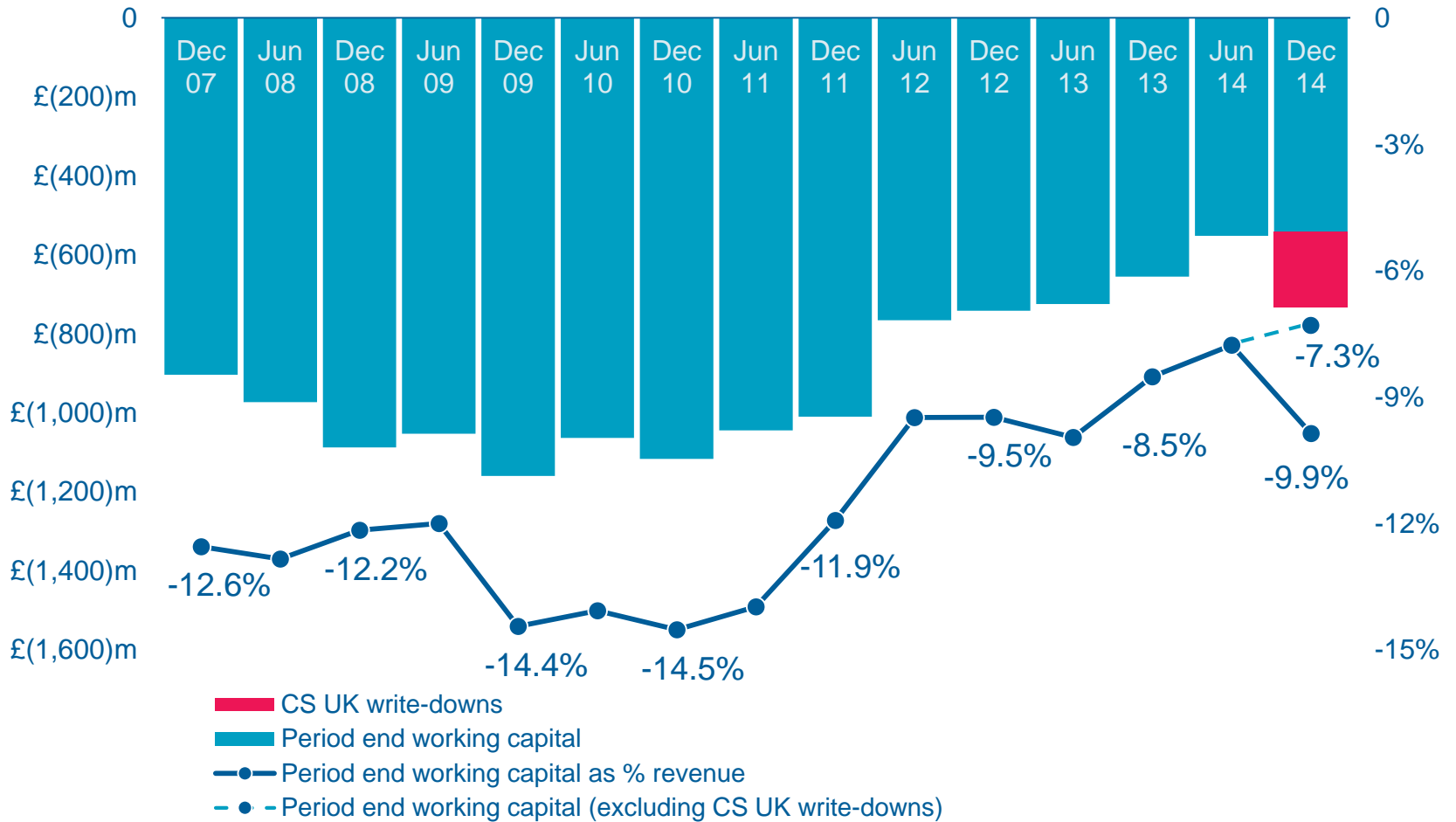
*In each series group, left-hand column represents the order book as at 31 Dec 2013, and the right-hand column as at 31 Dec 2014
From underlying continuing operations*

Working capital – Group



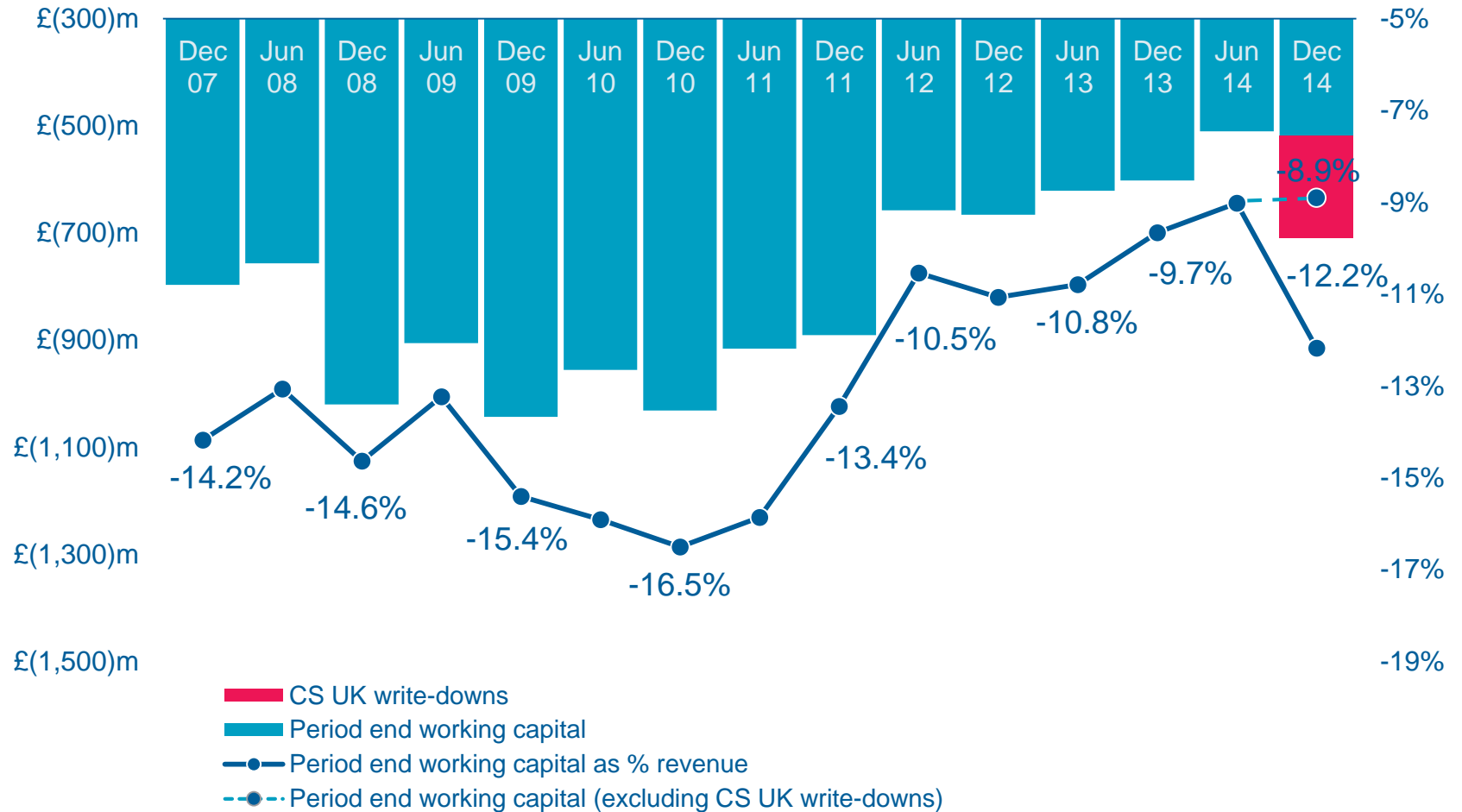
From continuing operations including non-underlying

Working capital – Group – restated



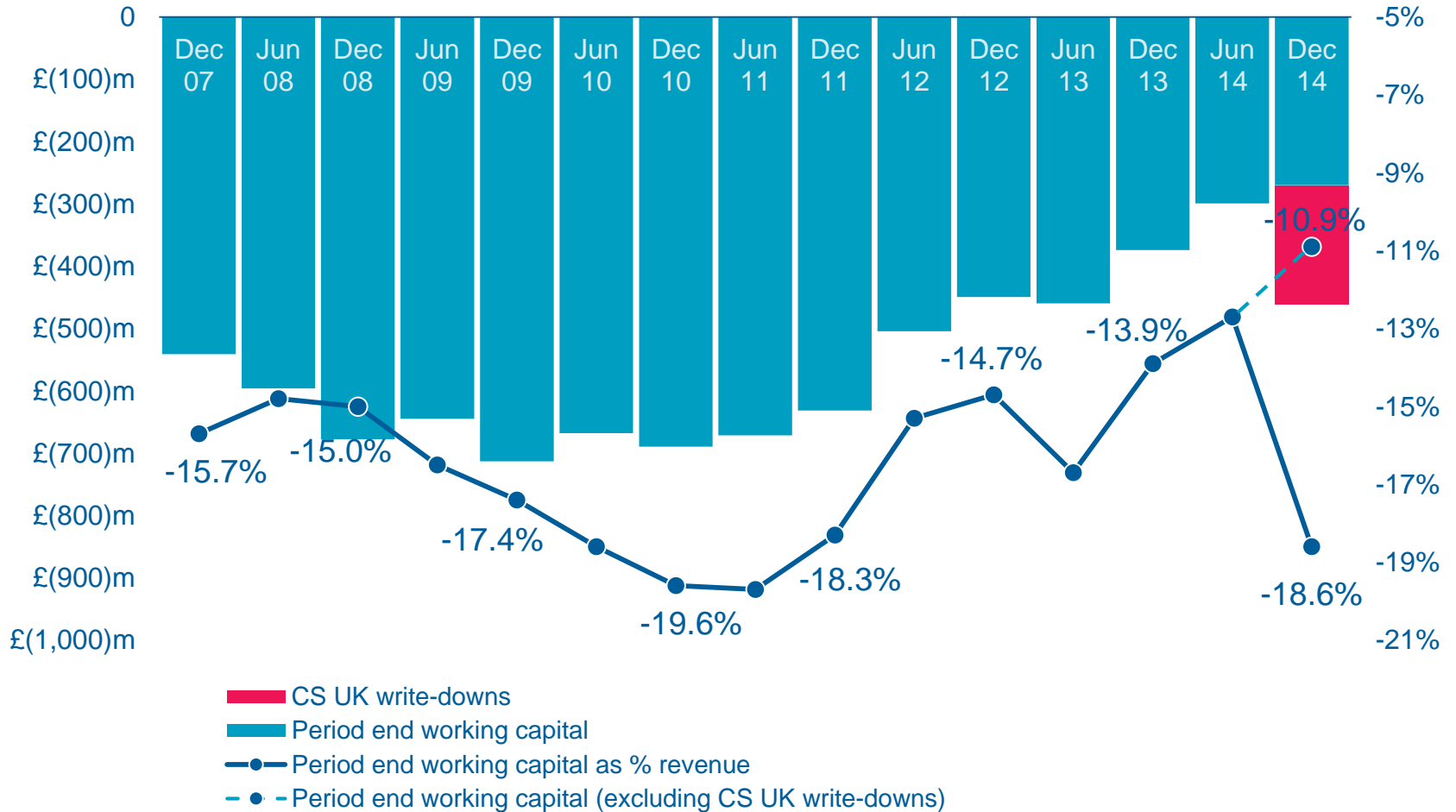
From continuing operations including non-underlying
 June 2014 and earlier figures restated to remove Professional Services and include Rail Germany

Working capital – Construction Services – Consolidated



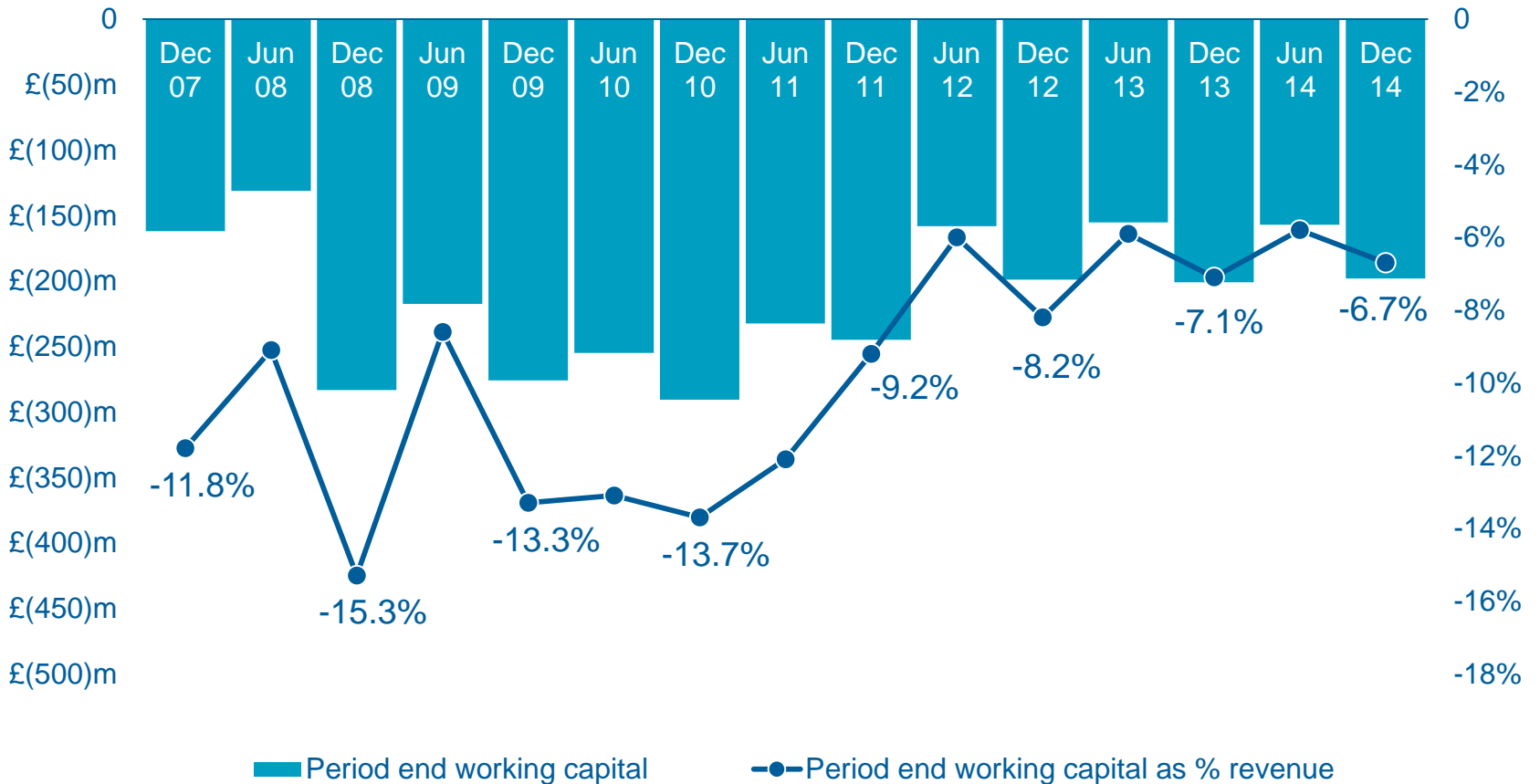
From continuing operations including non-underlying
 June 2014 and earlier figures restated to include Rail Germany

Working capital – Construction Services UK



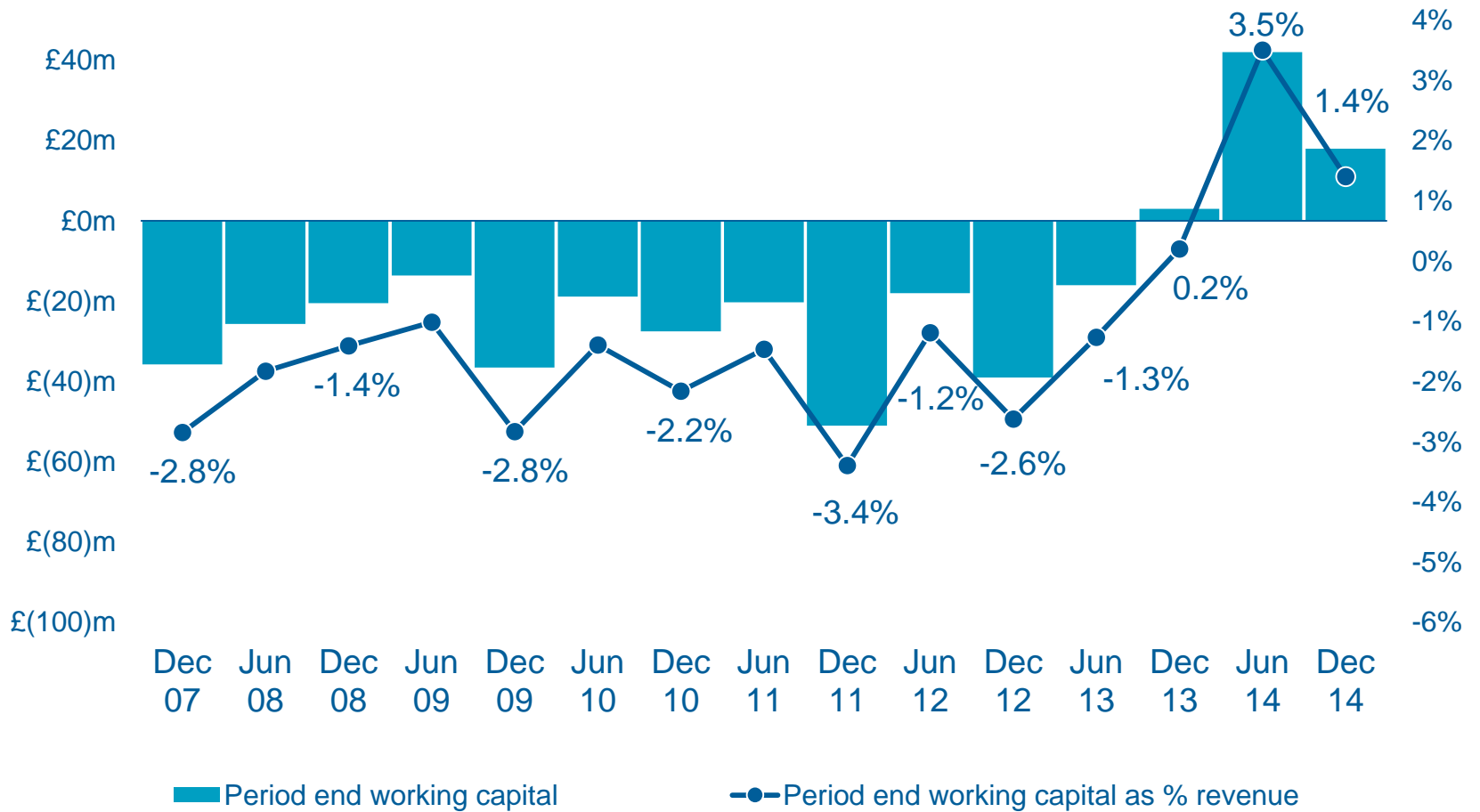
From continuing operations including non-underlying

Working capital – Construction Services US



From continuing operations including non-underlying

Working capital – Support Services



Underlying effective tax rate

£m	FY 2014				FY 2013			
	PBT	Tax	PAT	Tax rate (%)	PBT	Tax	PAT	Tax rate (%)
Group, excluding JVs & associates*	(135)	2	(133)	1.5	60	(28)	32	46.7
JVs & associates*	70	(15)	55	21.4	80	(9)	71	11.3
Aggregate*	(65)	(13)	(78)	(20.0)	140	(37)	103	26.4

* Before non-underlying items

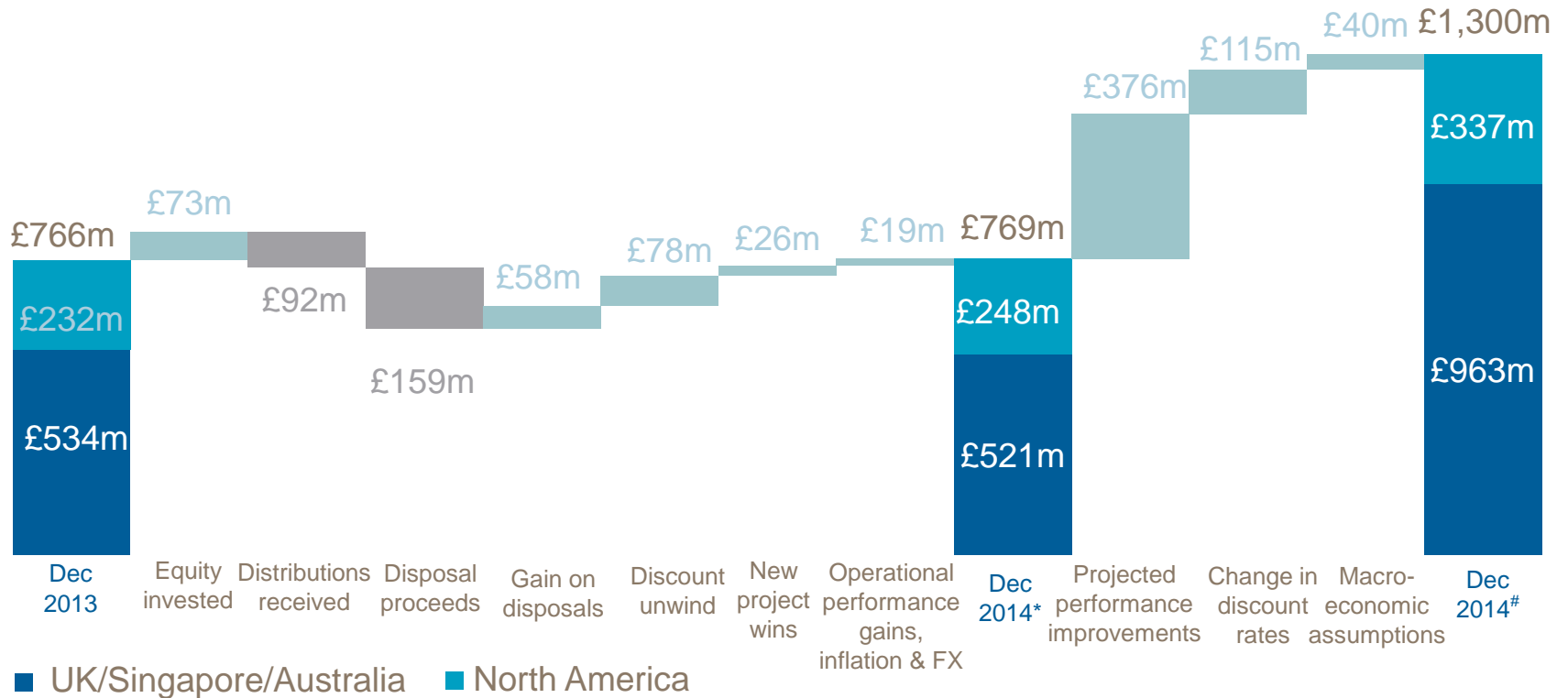
Infrastructure Investments

£m	FY 2014			FY 2013		
	Group	JVs & assoc	Total	Group	JVs & assoc	Total
UK†	2	40*	42	2	27*	29
North America	15	6	21	21	6	27
Infrastructure Fund	-	-	-	(2)	-	(2)
Infrastructure	(2)	-	(2)	(3)	-	(3)
Bidding costs and overheads	(27)	-	(27)	(31)	-	(31)
Pre-disposals operating profit	(12)	46	34	(13)	33	20
Gain on disposals	93	-	93	82	-	82
Investments operating profit	81	46	127	69	33	102
<i>Subordinated debt interest income</i>			29			25
<i>Infrastructure concessions' net interest</i>			6			5
Investments pre-tax result			162			132
<i>Investments post-tax result</i>			149			121

† Including Singapore and Australia

* UK JV's and associates presented net of tax

Investment portfolio valuation



Discount rates (weighted average)

UK/Singapore/Australia 7.8%

North America 8.1%

* Using Dec 13 assumptions

Using revised assumptions

Pensions charge

£m	FY 2014	FY 2013
Defined benefit schemes:		
P&L charge – service cost	7	26
Expected return on assets	(119)	(107)
Interest cost on scheme liabilities	135	116
Net finance charge	16	9
Net pension charge	23	35
Defined contribution schemes:		
P&L charge	52	36
Total charge	75	71

From continuing operations excluding curtailment charges and settlements

Net interest cost

£m		FY 2014	FY 2013
Subordinated debt interest receivable		29	25
Interest on PPP financial assets	26		
Interest on non-recourse borrowings	(20)	6	5
Net finance costs – pension schemes		(16)	(9)
Other interest receivable	9		
Other interest payable	(17)	(8)	(15)
US private placement		(10)	(9)
Convertible bonds			
- finance cost	(5)		
- accretion	(6)	(11)	(1)
Preference share finance cost			
- finance cost	(11)		
- accretion	(2)	(13)	(12)
Net interest cost*		(23)	(16)

From continuing operations

Group balance sheet

£m	FY 2014	FY 2013
Goodwill and intangible assets	1,042	1,252
Current assets [#]	1,698	1,956
Current liabilities and provisions [#]	(2,429)	(2,506)
Working capital [#]	(731)	(550)
Net cash/(debt) (excluding infrastructure concessions)	219	(66)
PPP financial assets	559	455
Infrastructure concessions - non-recourse net debt	(445)	(354)
Retirement benefit obligations	(128)	(434)
Net assets held for sale	13	12
Other assets	1,154	1,214
Other liabilities	(456)	(496)
Equity holders' funds	1,227	1,033

[#] Excluding cash/borrowings, tax and derivatives

Balance sheet cash movement

£m	FY 2014	FY 2013
Opening net cash [†]	(66)	35
Cash used in operations [†]	(345)	(165)
Dividends from JVs and associates	56	48
Capital expenditure and financial investment	(135)	(26)
Acquisitions and disposals (net of net cash disposed)	857	150
Dividends, interest and tax paid	(125)	(116)
Exchange adjustments	(21)	3
Other items	(2)	5
Closing net cash / (debt)[†]	219	(66)
Infrastructure concessions - non-recourse net debt	(445)	(354)
Closing net debt	(226)	(420)

[†] Excludes infrastructure concessions
From continuing operations