UK CONSTRUCTION CONSOLIDATION 2017-2022

Corporate Strategies and M&A Opportunities

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Performance Review

"I think we're in good enough shape to start making the same mistakes again."

Innovation & Investment

"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

"A World of Construction Opportunity"

UK Construction Consolidation 2017-2022
Corporate Strategies and M&A Opportunities

ACKNOWLEDGEMENTS

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Acknowledgement is given, in *Appendix I,* to the sources of Third Party Information, Analysis, Data, Words and Ideas, all crucially included to further the basis for the Conclusions of the Report. It is not possible to refer to every input item of Third Party work sourced off the internet, all of which is information in the Public Domain. However, special reference, praise and thanks is necessary where messages have been used in justification of the Report's main arguments and conclusions about the UK Construction Industry's need for *Consolidation* and scenarios of subsequent *Diversification*, in light of European and International Competition. Three Key Publications and their co-authors, from whose content and intellectual honesty, the Report has benefitted, are cited here:

Ernst & Young: *UK Construction, consolidation ahead*- which examines the Industry's structure and company specific challenges which they state remain a barrier to a more operationally and financially robust construction sector.
(Contacts: Russell Gardner rgardner1@uk.ey.com and Malcolm Bairstow mbairstow1@uk.ey.com , London)

Deloitte: *European Powers of Construction 2015* – which examines the strategies and performance of the most representative listed European construction groups in terms of revenue, market capitalisation, internationalisation, diversification, indebtedness and other financial ratios.
(Contact: Javiar Parada, japarada@deloitte.es , Spain)

KPMG: *UK Government Construction Pipeline*- which contains data on the UK Government's Construction Pipeline and likely timing of the large infrastructure spend commitments, with detailed lists of Government funded current and planned construction and infrastructure activity, It demonstrates that, other than for the industry problems highlighted by the EY Report (above), the project pipeline in areas such as infrastructure and house building ought to provide a backdrop in which the UK construction industry thrives.
(Contact: Richard Threlfall, Richard.threlfall@kpmg.co.uk , London)

Credit is also given to the original authors of information relating to Company Rankings, Financial Information, M&A Notes, or Comment including: Building.co.uk; Construction News (CN); Construction Index; Engineering News Review (ENR); Association of Consulting Engineers (ACE); Wikipedia; Citywire.co.uk; 4-traders.com; McKinsey & Co; Vertex; and quoted City Analysts including Phil Oakley, Kevin Cammack, Tony Williams, Stephen Rawlinson, James Quinn, Joe Brent, John Hargreaves, Olivia Peters, Chris Barnberry and Andrew Gibb.

Grateful thanks must be afforded the Cartoonists for some very pertinent quotes.

While the Report Preparation, and Follow-up Plans are driven by self-determination and efficacy, they were inspired by a certain intellectual congruence with the Research Work of the esteemed Professional Firms cited above. Thanks to the Alumni Department of London Business School for administrative support. Special thanks go to Sir Neville Simms for providing the 'Foreword' for the Report, and last but not least- Honour and Respect for the late Sir Godfrey Mitchell, the legacy of whose visionary leadership, *Wimpey*, inspired me in my formative career years.

Sir Godfrey Mitchell

"A World of Construction Opportunity"

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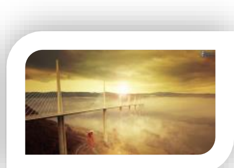

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Strategy

"Ten minutes left- Let's do the strategy."

&

Leadership

**"I completed the leadership course,
So what should I do next?"**

FOREWORD

Sir Neville Simms FREng

This research project reports historic details of Mergers and Acquisitions in the UK construction sector and explores the corporate strategies and M&A opportunities being presented in the face of the prediction of increased consolidation in the industry. The data, and many of the views and opinions, have come from a wide variety of third party sources, not all endorsed by the author, but they add to the debate.

It is a fact that Merger and Acquisition activity in the UK has played an important role over the years, and it does appear to increase after periods of recession. Recently Project Management and Consulting Design firms have been experiencing unprecedented consolidation as multinationals have come to acquire UK companies, not only to enhance their UK presence, but to access the UK's multi-talented international engineering skills.

One of the motives for M&A in the contracting sector seems to be the belief that the larger the firm the greater the efficiency and available economies of scale. A few of the Continental European competitors are certainly very substantial in both size and scope and have grown predominantly by means of M&A. British contractors are in danger of missing out on major international projects in the future, if they lack the financial muscle and diversity of say a £15bn-a-year contractor to handle the more complex projects.

However, while Mergers and Acquisitions are unlikely to be the panacea for success and recognising that often too much focus is placed on the M&A activity itself, it is likely that M&A will continue to play a significant role in the re-focusing and re-vitalisation of companies and the industry. In my experience, successful M&A's are achieved through sound pre- planning and, once executed, by getting employees from both organisations fully engaged in the integration process.

On the premise that further consolidation in the industry must and will take place, policies and strategies that lead to increased market share, more innovation, improving profitability and more certain returns to shareholders, should lead us to a construction sector that in the future is both financially and operationally stronger.

Sir Neville Simms FREng is a Chartered Civil Engineer. He is currently Chairman of Thames Tideway. He was previously Chairman of International Power plc for ten years, until the Reverse Merger of the Group with the international power generation assets of GDF Suez early in 2011, at which time he became Deputy Chairman of GDF-Suez Energy International.

Sir Neville led Tarmac's Asset Swap with Wimpey in 1996 and until 2005, was Chairman of Carillion plc, after the De-merger, in 1999, of the company from Tarmac plc, where he had worked for 35 years; including as Group CEO and Deputy Chairman for the last eight years. He was, for the final three years of the project, joint Chairman of TML, the Channel Tunnel contractor's consortium.

Sir Neville has chaired a number of Construction Industry bodies and the Regional Leadership Teams for Business in the Community in the West Midlands and the Solent Region of the UK. He was a founder member of the UK Government's Private Finance Panel, Chairman of the Government's Sustainable Procurement Task Force, Deputy Chairman of Ashridge Management College, Chairman of the Building Research Establishment (BRE) Trust for ten years and a member of the Presidents Committee of the CBI until 2015, he also served for seven years on the Court of the Bank of England.

Industry Structure

"I'm a small builder"

THE AUTHOR

Greg Malpass BSc, MBA

This Study is not commissioned by an Industry Body or Commercial Enterprise. It is a private research project expressing private views, reporting facts, figures, findings, and extracts from other experts' reports, and views and opinions of a range of third parties, focused on the subject matter of Merges and Acquisitions in the UK construction industry. Analysis and comment is provided on companies, corporate strategies and M&A opportunities which might emerge in the predicted consolidation in the industry.

Decades of Mergers and Acquisitions have more than shaped the industry, they have transformed it. Levels of M&A have once again regained momentum since the financial crisis in 2007. This has led to some companies becoming a lot larger, thus making it much more challenging for tier 2 enterprises, as the industry continues on a path toward full service integration.

It is not yet clear whether the 'bigger is better' ethos will readily translate through to UK Major Construction Groups, who are predominantly Contractors and Support Services companies. The large European and International diversified competitors are ahead of the game and in the UK are looming in the shadows and willing to joint venture, where mega projects are in the offing, combining significant capacity and financial strength with local knowledge. Post-Brexit, this trend could well turn into full Merger and Acquisition activity by Mainland Europeans, to secure their UK subsidiaries' interests, particularly where their home markets remain depressed.

There is a large incentive for Contractors to grow and Mergers and Acquisitions may be warranted if value is added to firms, but they are not without their risks, as history has shown. It is speculated that enlarged UK Groups will emerge from the M&A, and use their combined strength to invest in and develop latest systems and processes and become more Diversified businesses in the future, and equals to the most successful of their Global competitors.

This Report contains industry and company analysis, from an array of researched sources, including personal viewpoints. I am sure we all believe that considering a diverse range of ideas makes for better in-sight. I trust you find the analysis useful. It looks to the past with the benefit of hindsight, and an occasional critical eye, and to the future with poetic license and an occasional provocative strategic eye.

Greg Malpass is an International Strategy and Business Development Executive. He has a BSc in Civil Engineering from City University London, and earned an MBA from London Business School and New York University. He is currently Managing Partner and co-founder of Think Big Partnership, a Strategy Consultancy based in London and Miami.

Greg has over 35 years of international industry experience working for extended periods in Europe, Middle East, Africa, Far East, North and South America. He has held senior positions with Pell Frischmann Group, Kier, Costain, Biwater, Wimpey, Tarmac and Taylor Woodrow with lead roles in Mergers and Acquisitions including the Privatisation of PSA Projects from HMG in 1993, the Wimpey-Tarmac Asset swap in 1996, and the sale of Costain (West Africa) Plc in 2006. He was seconded for 3 years in 1999 to the Government's UKTI as an International Trade & Investment Advisor for Latin America.

Greg is a past Member of the National Contractors Economics and the UK Construction Forecasting Committees from 1991 to 1994, the Industry Expert Panel to Reading University 'Investing in Britain 2001' Project in 1991, Director (ex-officio) of the British Colombian Chamber of Commerce (BCCC) and the British Peruvian Trade & Investment Group during 1999-2002, Member of the UKTI Ports Sector Group, Director of IPCO ContractorsLtd (Hong Kong), Brazilian Water Works SA (Sao Paulo), International Project Developers (Dubai, UEA), and Termo-Pacifico SA (Cali, Colombia) between 1997and 1999.

Terms

"It's all part of the terms of the merger"

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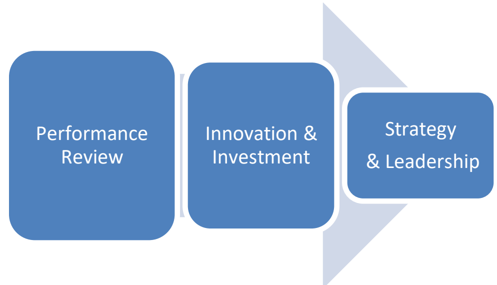
Balance

"Panic Internally"



OVERVIEW

"The overall conclusion and prediction from the Research & Analysis, is that the major UK Construction Groups with strong UK market positions, and low levels of Debt, will benefit from Consolidating their positions via "*UK Mergers & Acquisitions."*

Merged Groups can then start to address their relatively low levels of Diversification by investing in Higher Margin Non-Construction Businesses, both in the UK and Overseas. They should achieve this by using their Combined Balance Sheet strengths to secure substantial new sources of Debt and/or Equity Finance, to Fund an M&A Strategy targeted at achieving a significantly enhanced level of Diversification, both in Non-Construction Activity and further Internationalisation.

UK Companies have been left behind by their Continental European and International Competitors, and a 'Do nothing Strategy' is no longer an option. Growth and Diversification will be necessary to sustain future leading Global Construction Conglomerates. Size, diversity and sound risk management will combine to provide a platform for disciplined and sustainable growth.

Consolidation in the Industry must and will take place. The right move made by a few will 'harness the potential of many by a singular vision'. The process will mirror that seen in comparable industries where the supply base has consolidated around leading participants as it did in the Automotive Industry, Aerospace and Professional Services (The Big 4).

DRIVERS FOR CHANGE

EXECUTIVE SUMMARY CONTENTS:

EXECUTIVE SUMMARY

UK CONSTRUCTION INDUSTRY

Despite some potential headwinds, data shows that the UK's recovery is still one of the strongest in the world. The construction industry output is over £100bn, 6.5% of the UK economy.

While Brexit has brought uncertainty to the sector the message from Government is clear, infrastructure projects should continue as before, with the Prime Minister Theresa May suggesting the use of UK Treasury backed bonds to fund projects. The overall long term outlook remains good. Her Majesty's Government (HMG) has been working with industry organisations to put together a framework for *"Construction 2025."*

HMG's own "Strengths, Weaknesses, Opportunities, Threats" (SWOT) analysis, and further independent analysis by *Ernst & Young*, predict the potential for a wave of consolidation in the industry. The underlining message is that companies in the industry should focus on consolidation via merger and acquisition (M&A), or prepare to be successfully acquired.

Increased M&A is likely to set the future direction of the UK construction sector, its future structure and its capacity.

UK INDUSTRY STRUCTURE

The top 25 UK construction companies turned over £42b last year and delivered an earnings before interest, tax, depreciation and amortization (EBITDA) margin of 2.6%. In contrast, Europe's top 10 operators turned over £132b and recorded an EBITDA margin of 8.4%. There are 41 UK construction companies that individually turn over in excess of £250m. Of this group, 15 companies turn over more than £1b. Below that, there are 56 entities turning over between £50m and £250m. The industry structure creates a highly competitive bidding process. Projects are won on very tight margins, and profits can be lost or made depending on cost movements during the project life cycle.

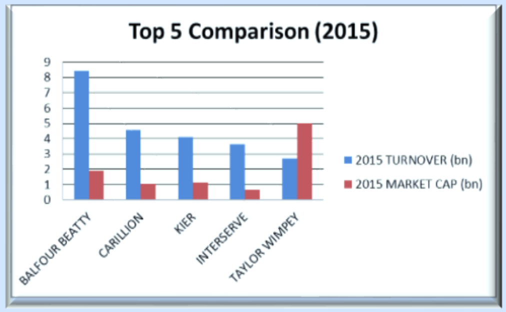
On top of wafer thin margins, the Top UK Contractors are dwarfed by their Mainland European counterparts who are prepared to compete on price in the UK. Several Continental Companies are diversifying away from depressed domestic markets, and already own UK Subsidiaries, or Joint-Venture on Major Projects.

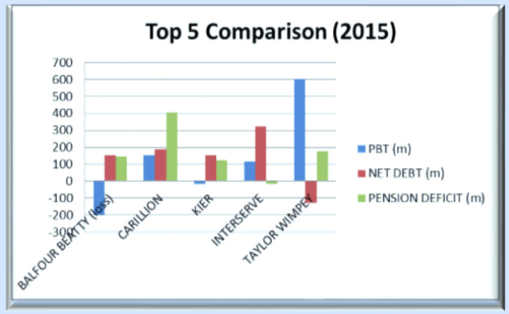
UK Contractors in general are in a worse financial position going forward than compared with 2008 after the 2007 crash. A few of the large contractors currently have depleted reserves; and despite there being longer term prospects of growth, the fear is some companies won't be here to enjoy the up-turn. Mergers, acquisitions, and some company failures, or changed ownership structures are inevitable.

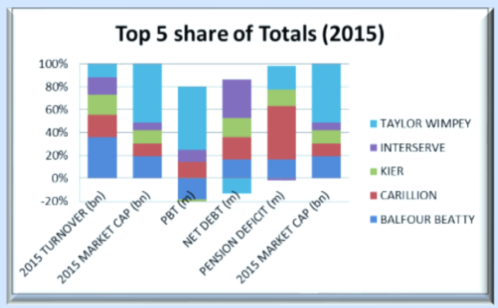
Ernst & Young, in their 2015 Report *"Construction- Consolidation ahead"* expect the top 15 companies to increase their market share. This is partly as a result of scale advantages but mainly because a handful of organisations have well-run businesses that are able to deliver strong and consistent returns on invested capital. These organisations are backed by relatively healthy balance sheets and sector-leading platforms.

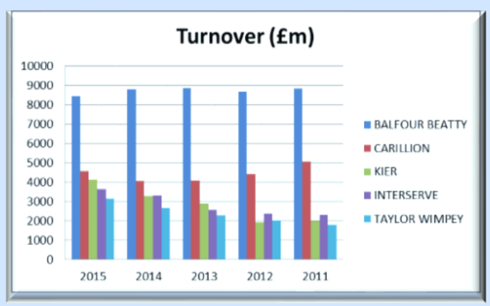
Equity and debt capital should migrate towards these entities. This will enable them to grow disproportionately through both organic and inorganic means.

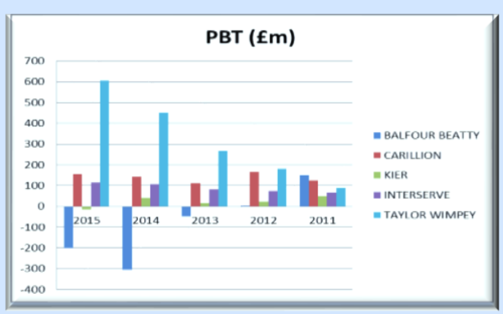
COMPETITOR ANALYSIS & FINANCIALS
(UK Listed Plc's)











PERFORMANCE REVIEW

Balfour Beatty's main business segment is Construction, 78% of sales. By increasing bid margin thresholds and the business focus on jobs to which the Group can deliver value the quality of the order book has been improved. While it is focusing on retrenchment and consolidation in its core contracting businesses, it does not have the luxury to do what it needs to do for the longer term, which is to put in place a strategy, and the financing, for future diversification outside contracting.

Carillion's progress has plateaued off somewhat in recent years compared with its performance over the last decade. Debt levels and contributions to the large Pension Deficit are high, with the latter impacting Net Profit levels. However, looking closer, it is worth noting that Operating Cash Flows are strong at £245m in 2015 and over £250m in 3 of the last 5 years. One may be forgiven for thinking that the company has become rather reliant on buying other companies and the cost savings that come with it to grow. Well if that were the case, the merger with Balfour Beatty would have represented the mother of synergistic opportunities, but Carillion seems to have moved on.

Kier has 96% of its sales within the UK, but UK operating margins remain strong overall, backed particularly by its smaller Property and Residential divisions. However, Kier recorded a £15m loss over the 2015/2016 year after taking a £116m one-off hit from closing its Caribbean business, restructuring Mouchel and provisions on legacy May Gurney waste contracts. Kier was never an advocate of taking M&A risk, probably due to its cautious cash management post MBO, but seems to have taken a new route with its May Guerney and Mouchel buys in fast succession. However the company's fundamentals remain strong. Kier is a diversified UK contracting, support services, and property/housing Group and together with Galliford is one of the only UK Main Contractors which maintained a Housing Arm, and maybe can be commended for having done so through economic cycles. Indigestion from swallowing May Guerney and the sale of the rump of Mouchel behind them, Kier could well be a candidate for future Merger and Acquisition activity, in its search for future growth, which should provide further diversification.

Interserve's core Construction and Support Services businesses are firing on all cylinders, with net income rising 74% in 2015. A well run and diversified business in terms of these two business sectors. Also it has recently decided to retain its Formwork subsidiary with its strong Middle East business. All analysts seem to concur that the company has performed well despite setbacks, but is it ready to invest what's probably needed to break into the big league.

Costain is an admirable survivor with a "steady as you go" strategy and a brand name that has allowed it to continue to punch above its weight since near demise in the early 1990s. But its days as an independent company are probably numbered now the supportive minority shareholders have diluted their holdings and their nominees have left the Board. With its cash position deteriorating somewhat, and future acquisition aspirations of any substance dawning, surely it's time to seek to be positively acquired by a larger financially robust partner who can help it back into the Tier 1 position it deserves, given its unquestionable engineering capabilities.

Morgan Sindall's operating profit is predominantly derived from its fit-out & urban regeneration businesses but the Group currently is loss making, although it will continue to benefit from its strong operating margin in its fit-out business. A steady business, but maybe not a candidate to become a Top 5 industry leader in the immediate future. The company may not be a lead player in the UK, but has its niche market strengths and some pros when it comes to being a potential M&A target (eg. no financial debt , management holds significant shares, high ROE/ROE/ROIC, long established operating history and no pension liabilities).

Galliford Try is a strong Diversified Housing and Construction Group with a Market Capitalisation of £1.1bn, a Turnover of £2.5bn, PBT £135m and Net Assets of £600m.

It will continue to enjoy the current buoyant housing market and outlook, and may choose to grow by M&A. Complimentary Housing Groups like Countryside, and Miller Homes, (Galliford having already acquired Miller Construction), which decided not to list in 2014 as planned, may become the target of the growth aspirations of Groups like Galliford, especially if it's funders/ key shareholders seek an exit strategy.

Taylor Wimpey is a star performer among current UK Construction Groups, even though it cannot be described in any way as widely diversified. Strong Revenues, Profits, Order Book and a quality Land Bank have earned it a deserved c. £5bn Market Capitalisation. Quite a turnaround from the woes of the Post -Merger company debt Crisis and market downturn it faced in 2007. But the Group needs to look to its longer term future, and its new focus might well be on capitalising on its financial strength to diversify outside its total dependency on the UK Housing Market, despite its current buoyancy and outlook.

RECENT M&A ACTIVITY

M&A has shaped the industry for decades. In the run-up to Industry changing events in 2007, there were several major M&A deals, including the Asset Swap between Wimpey Construction & Minerals Divisions of Wimpey Plc and Tarmac Homes of the Tarmac Group. Post the 2007 Global Economic crash, M&A in Construction fell, as did overall M&A activity across multi-sectors worldwide, until the up-turn.

Noteable Mergers and Acquisitions since have included: the Wimpey- Taylor Woodrow Housing Merger, Acquisitions of Parsons Brinkerhoff by Balfour Beatty, Alfred McAlpine by Carillion, WSP by Genivar, Miller Construction by Galliford Try, May Guerney by Kier, ISG by Cathexis of US, and Mouchel by Kier.

More recently there has been some major moves in the Global Construction and Engineering Design Sectors, impacting ownership of the UK's leading and internationally renowned Designers. These include the pairings of AECOM-URS/Scott Wilson, WSP-Parsons Brinckerhoff, CH2MHill-Halcrow, Arcadis-Hyder, Ramboll – Environ, and Amec- Foster Wheeler, all competing to be top Global Engineering Consultancy or EPC companies.

CORPORATE STRATEGIES AND M&A OPPORTUNITIES

Construction has traditionally been a very fragmented industry, with low barriers to entry. This is changing with the *"Construction 2025"* model of mega projects, and companies needing strong balance sheets (to support bonding requirements), dedicated in-house resources, established blue-chip client bases, and the need for consolidation in the industry to achieve it.

Potential future Buyers are speculated as Carillion, Kier, Atkins, as well as the Major European Construction Groups, and potential interest from Southeast Asia and China.

It is, of course, pure speculation as to which companies might combine to form future mega British Infrastructure Groups. There are scenarios explored in the Report comparing companies with differing future degrees of diversification and internationalisation. European Models, which are not over-focused on debt levels affecting net cash flow generation, embarked on M&A as growth strategies following their own domestic industries' consolidation processes. Based on similar moves, maybe one or two mega, broadly diversified construction groups could emerge in the UK.

COMPETITIVE STRENGTH MATRIX (2011-2015)

TURNOVER (£m)	**2011-2015 CAGR**	
BALFOUR BEATTY	-0.9%	
CARILLION	-1.9%	
KIER	15.5%	
INTERSERVE	9.4%	
TAYLOR WIMPEY	11.7%	
PBT (%)	**2015 PBT Margin**	**2015 RONA Ratio**
BALFOUR BEATTY	-2.4%	-24%
CARILLION	3.4%	15%
KIER	-0.4%	-3%
INTERSERVE	3.2%	22%
TAYLOR WIMPEY	19.2%	22%
MKT CAP 2015 (£m)	**2015 Market Cap**	
BALFOUR BEATTY	1915	
CARILLION	1068	
KIER	1156	
INTERSERVE	656	
TAYLOR WIMPEY	5011	

COMPETITOR BENCHMARKING

Taylor Wimpey

High Turnover Compound Annual Growth Rate (CAGR) AT 11.7%, High PBT Margin at 19.2%, Highest Market Capitalisation at £5bn. Highest Return on Net Assets (RONA) at 22%

Balfour Beatty

Reduced Turnover and currently Loss making, Market Capitalisation second Highest at £1.9bn

carillion

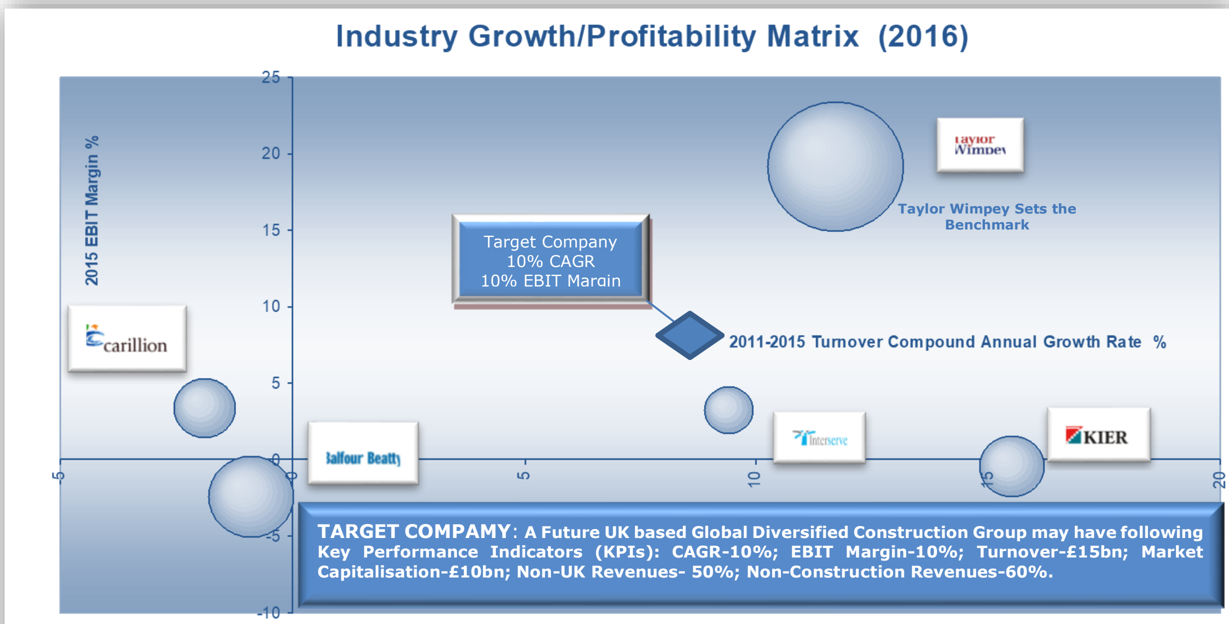
Stable Margin at 3.4%, slightly reduced Turnover at 15.5%, Market Capitalisation at £1.1bn. (Operating Cash Flow strong at £245m)

KIER

Highest Turnover CAGR due to Acquisitions, but Loss making due to 2015/2016 extraordinary items, Market Cap at £1.2bn. (Operating Cash Flow strong at £170m)

Interserve

Strong Growth at 9.4% CAGR, Margins also steady and growing to 2015 level 3.2%, Smallest Market Cap at £656m. Strong RONA- 22%



Note: Size of Bubble denotes Market Capitalisation

NOTE: Taylor Wimpey sets the Bench Mark for the Industry with a PBT Margin of 19.2%, Market Capitalisation of £5bn and CAGR in Turnover of 11.7% since 2011. While it is recognised that Taylor Wimpey is a pure Housing Business and Employs a larger Asset Base than its Contracting Peers (Net Assets £2.7 bn), it still has the highest ratios for Returns on Assets, Net Assets (RONA) and Equity (13.3%, 22% and 21.9%). [Contractors also have PPP Assets with equity shares which they often trade to make one-off profits. The Borrowings of these Assets are also predominantly Off Balance Sheet/ Non-Recourse].

INNOVATION & INVESTMENT

POTENTIAL INVESTORS & INTERESTED PARTIES

Global capital could be the catalyst to transactions which bring about the predicted consolidation in the industry, and perhaps more importantly fund the future growth and diversification of the major companies involved. There are a number of organisations and potential stakeholders that may be interested to participate in investment in mega-projects and the major UK companies, who will inevitably play a lead role in their construction .

1. Opportunities for Domestic M&A
The UK domestic market is crying out for consolidation. The candidates for Mergers and Acquisitions are within the Top 10 British owned UK Players. The potential for M&A deals is the subject of speculation by analysts given in the Report.

2. Entities in S.E. Asia & China with Vested Interests
Chinese Foreign Direct Investment in the UK is on the increase across several Infrastructure sectors and in Real Estate. The investment in Hinkley Point by China's State Nuclear Company, is a case in 'Point'. Four of the Top Ten Global Construction Groups are also Chinese, who may follow Chinese investors into the UK. It was widely rumoured that a large Chinese contractor was eying up Balfour Beatty. China Communications Contracting (CCC) also has a history of working internationally on Marine Projects (with Costain).

3. Sovereign Wealth Funds
Sovereign Wealth Funds (SWF) are active investors in infrastructure, and infrastructure companies, and will increasingly be interested in equity stakes in Major Construction Groups. One example was Qatar Investment Authority's minority interest in Hochtief (now sold). The World's Top 10 SWFs are secretive and illusive in the forming of their investment strategies, but Middle Eastern Funds particularly may well look favourably on investment in a consolidated construction sector.

4. Continental European Players
As the fastest growing of Europe's five big construction economies, the UK is an obvious port of call for companies seeking to expand beyond their home markets, and a lot of the European main contractors have been looking at the UK. BAM, Dragados, Hochtief and Vinci that hardly appeared on bidding lists prior to the recession feature regularly now. Dragados' involvement in Cross Rail, Thames Tideway and Bond Street Station are examples. Additional competition could hit margins. Greater competition could have a knock-on impact on prices, as competitive pricing could be part of their entry strategy. Alternatively they may seek further M&A to develop more established permanent positions. Vinci/ Taylor Woodrow, Ferrovial/Amey and BAM/Nuttall are already established UK subsidiaries, albeit some are currently loss making. Skanska is currently one of the strongest with operating income of £38.4 million in 2015 on revenues of £1,430 million. During this period, £1,493 million of orders were booked by Skanska UK. Maybe others will follow shortly.

The weakness of the pound is yet another trigger. Even if the pound were to stay at the level it is at currently and not weaken further, UK assets would still look very attractive valuations-wise to Japanese, US and European investors.

5. Private Equity Firms
Private Equity (PE) Firms may well become involved in opportunistic equity/debt funding arrangements. Their involvement in Europe has been on the up. In the UK 3i historically took a leading positions in companies in the Services Sector, including Enterprise. PE's normally expect to exit a company within 5 years via a trade sale or Initial Public Offering (IPO). The recent sale of Hanson's Building Products business also went to PE Firm Lone Star. The potential PE Players include the Global US/UK based leaders.

6. HMG- Public Sector Spender 2017-22
The UK Government will remain the main investor in the UK Economy and Construction Industry, and is contemplating funding infrastructure with the issue of Government Bonds. Leading Companies will also continue to enjoy the benefits of PPP Partnerships with Government on Infrastructure Projects. Also, if the Government continues with the Special Infrastructure Projects Regulations (SIPR) model, used in the UK Water Sector, which provides a '*Government Support Package*' (GSP) for high impact low probability events, this may reduce the risk profile of the very largest projects and be significant in the industry. There is a good argument that the Major Construction Groups operating in the UK should remain British owned, irrespective of the Brexit sentiment. M&A will be the Corporate route to maintain that position, as the other large Continental companies vie for the pickings.

PENSION DEFICITS

Pension risk is one of a number of key risks which an acquirer needs to assess. This area is often overlooked in the initial stages because acquirers do not always understand the pension issue. They prefer to focus on the core operational and business risks with which they are familiar. However, pension obligations can often be so large as to swamp any operational risk issues and may be a deal-breaker but are not discovered early in the process.

Carillion and Balfour Beatty Pension Deficits were c. £400m and £145m respectively at 2015 year end. No doubt this was in focus when Merger discussions were in place. Trustees need to be convinced of the robustness of Combined Groups going forward after mergers- something the Pensions Regulator is looking at. Other construction Group pension deficits at 2015 year-end were reported in Annual Reports as: Interserve £17m (surplus), Kier £123m, Taylor Wimpey £180m, Morgan Sindall £1.4m (surplus) and Costain £30m.

STRATEGY & LEADERSHIP

The current economic fundamentals and committed major project pipeline, including significant opportunities in areas such as infrastructure and house building, should provide a backdrop in which the UK construction industry thrives. Some industry advisors remain sceptical. *Ernst & Young* sees a weak construction industry being a significant risk to major counterparts to the sector. With contractor risk being a growing concern, they predict significant consolidation.

Following Consolidation, it is expected that the Major Groups will turn their attentions to financing diversification strategies, involving further M&A deals.

Market conditions now look well-suited to consolidation. The Top 5 are best placed to make strategic merger moves to start the process. Scenarios for possible M&A are widely speculated, but individual Company Analysis suggest Carillion and Balfour Beatty, Interserve, Kier, Laing O'Rourke, Costain, Morgan Sindall, and Galliford Try are all in the fold as potential M&A candidates.

While Laing O'Rourke is private, the others are listed Plc's and could become aggressive take-over targets for foreign buyers including Vinci, Bouygues, Ferovial, Skanska and BAM, among others. Likely sellers, or companies who may become the subject of acquisitions are speculated as Costain, WYG, Miller Homes and Cathexis' subsidiary ISG.

The Housing Sector is looking up too, and Taylor Wimpey, Barratt, Miller homes and Countryside homes may be good partners for the future. Galliford Try or Kier may be interested in expanding their housing interests. Miller, for example, has been groomed for a flotation that never happened, and may become an acquisition target.

Carillion's opportunistic £2.1bn bid for Balfour Beatty was one of the boldest moves of 2014. While unsuccessful at that time, there is still potential to create a construction giant of a scale the UK market has never seen before, involving these two and/or other Groups. Three way mergers are not unheard of in other industries. Coca Cola Enterprises recently merged its Bottling Business with its Iberian and German counterparts in a $27bn deal. The combination of Balfour and Carillion alone would have had significant North American and Middle East strongholds and good management and systems in place to tackle large projects. But Companies such as Vinci, Bouygues, ACS and Ferrovial are far more widely diversified in terms of more profitable Non- Construction related business outside France & Spain.

Inspirational Leadership will be required to seek out and realise the right M&A structures and deals to create these Major Groups, assuming that is the way the industry ultimately moves. Few Groups will acquire the scale and resources to take on Mega Projects; and implement long-term financing for Diversification, that can weather the economic cycles, and occasional one-off losses.

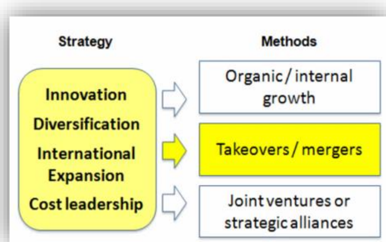
Ferrovial, under the leadership of the Del Pino Family, transformed itself from its modest position as a domestic contractor in Spain in the early 1990s into an International Construction Conglomerate, with M&A deals (both acquisitions and divestments), mostly involving Airport Concession Companies, valued at over £10 billion. ACS did likewise to become Europe's second largest Group, big enough to weather a bruising record level €2bn loss in 2012 because of write-downs in its Power subsidiary Iberdrola.

If the industry can find the leadership it needs to transform current UK company performance, a resultant construction sector that is both financially and operationally stronger will be of benefit to all.

If they pursue M&A strategies, these "*Inspirational Leaders"* will need to:

- Harness their Executive Aspirations
- Choose The Right M&A Targets/Deals
- Form The Best M&A Advisory Teams
- Have A Well Thought Through Integration Plan
- Know The Potential Pitfalls

It is our belief that these leaders will champion the Mergers and Acquisitions as a strategic way forward to build strength and leadership in the Industry, and achieve growth through 'Innovation, Diversification, International Expansion and strong cost leadership Business Models'. Some of our European Competitors have led by example in this respect. Whatever the level and areas of diversification, in terms of pure construction, UK contractors are in danger of missing out on the world's biggest infrastructure projects because they lack the muscle of competitor £15bn-a-year contractors.



ROUTE TO FUTURE DIVERSIFICATION

After the process of Company and Industry Consolidation is complete, it is concluded that the focus will shift to Strategies for Growth and Diversification, and here too M&A will pay a lead role. Investment should be focused on Diversification, both Geographical, and in terms of Non-Construction Revenue. The sectors chosen may vary. Even for the Major Groups without significant Gearing, this may be best achieved via new Equity and Debt instruments. It is noted that most of the well-diversified European Competitors have higher levels of debt than do their UK counterparts, and in the UK SWF's and PE's may also seek Equity positions

CONCLUSION- CONSOLIDATION FIRST

The conclusion from the Analysis, is that the UK Construction Groups with strong UK market positions, and low levels of Debt, will benefit the most from Consolidating their positions via "*UK Mergers & Acquisitions"*. They should then start to address their relatively low levels of Diversification by investing in Non-General Contracting Businesses, both in the UK and overseas. They should achieve this by using their Combined Balance Sheet strengths to secure substantial new sources of Finance, to Fund an M&A Strategy targeted at achieving the enhanced level of Diversification, both in Non-Construction Activity and further Internationalisation. Following the trusted Strategic Models of a few highly geared successful European Majors may not be the only way forward. Other strategies may emerge. But it is a fact that UK Companies have been left behind, and a "Do nothing Strategy", will surely prove to be a poor one.

Funding for M&A led Growth can be achieved via a combination of Financial Structures involving internal Cash Flow, New Equity Issues, Debt and/or Quasi Equity/Convertible Debt, Off Balance Sheet Funding, etc. New enlarged Groups may become so as stand-alone self-funded entities, or merged businesses, or possibly be the legacy groups of yet-to-be-formed Strategic Alliances with new Strategic Partners and Ownership Structures, involving new investors.

The UK Construction Groups of the 1980's were typically diversified Domestic Conglomerates with Strategic Business Unit Portfolios in Construction and Services (cash generators) and Property, Housing and Infrastructure Concessions (cash users) as well as Minerals, Equipment Hire, and even Hotels and Shipping in the case of P&O and Trafalgar House. Businesses were complimentary. Housing Land Banks, for example, 'hoovered' up the cash generated from Construction, but the City's complaints about the difficulty of trying to analyse businesses that had different characteristics within one corporate entity- finally precipitated the lead-up to their gradual break-ups into their constituent parts.

Diversified Construction and Support Services Groups of today also face Cash requirements and finance (albeit often on a non-recourse basis) for new business sectors such as Public Private Partnerships (PPPs). Whatever the constituent parts of tomorrow's UK Construction Groups, leaders who implement careful but brave M&A as part of Corporate Strategy to grow in Diversity, will reap the benefits for their companies, and their shareholders, in becoming tomorrow's Global Construction Conglomerates with a sustainable future.

Google defines "Strategy" as a plan of action designed to achieve a long-term or overall aim. Chief Executives should bear this in mind when setting out their longer term Business Plan Objectives, once the current fire-fighting, and juggling for position in a consolidating industry is over.

DEFINING STRATEGY & LEADERSHIP

GOOGLE DEFINITIONS

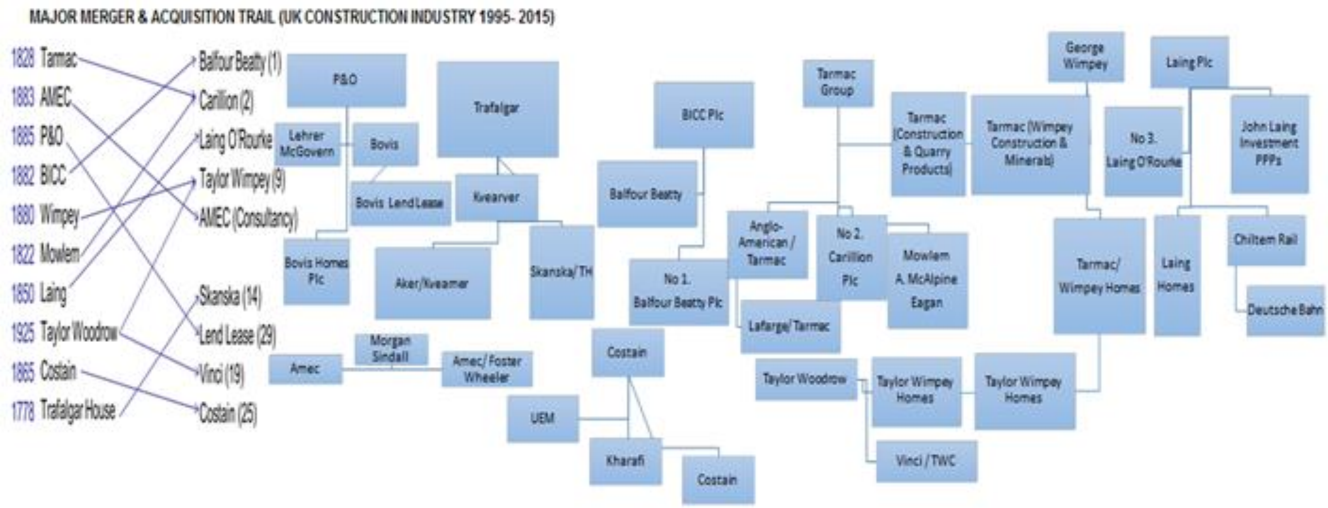
Strategy | ˈstratɪdʒi/
Noun

- a plan of action designed to achieve a long-term or overall aim.

& Leadership | ˈliːdəʃɪp/
Noun

- the action of leading a group of people or an organization, or the ability to do this.

INDUSTRY LEADERSHIP AND M&A HISTORY



Refer to Chapter 5.

FUTURE MERGER SCENARIOS- FINANCIALS (Based on 2015 Figures)

MERGER SCENARIOS- FINANCIALS (2015)

OVERALL SUMMARY

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COMPETITOR	MKT CAP (2016) (£M)	ENTERPRISE VALUE	NET ASSETS	PENSION DEFICIT	OP CASH FLOW	PFI- DIRECTORS VALN	OP CF/ ENTERPRISE VALN (%)	MKT CAP-NA/ NA	PENSION DEF/NA	PFI/NA
Acquisition Valuation Criteria		*A. Enterprise Value= Mkt Cap-Cash +Dbt*					*B. Pay-Back Ratio (based on Op CF)*	*C. Premium to Net Assets (Goodwill)*	*D. Pension Burden (as Ratio to Net Assets)*	*E. Understated Balance Sheet (Directors Valuation not on Balance Sheet)*
BALFOUR BEATTY	1903	2057	826	146	-129	1244	-6.3%	130.4%	17.7%	150.6%
COSTAIN	369	309	121	30	18	na	5.8%	205.0%	24.8%	na
MORGAN SINDALL	318	315	249	-2	36	na	11.4%	27.7%	-0.8%	na
KIER	1308	1461	576	123	170	38	11.6%	127.1%	21.4%	6.6%
CARILLION	1078	1266	1017	406	245	27	19.4%	6.0%	39.9%	2.7%
GALLIFORD TRY	1099	1154	569	35	125	na	10.8%	93.1%	6.2%	na
INTERSERVE	518	840	513	-17	114	na	13.6%	1.0%	-3.3%	na
TAYLOR WIMPEY	4822	4694	2723	180	427	na	9.1%	77.1%	6.6%	na

COMMENT
(Based on Financial Criteria, above)

Note: Taylor Wimpey is considered lead Housing Group for Construction Group M&A, but Barratts and Persimmon are both possible substitutions subject to Analysis

BALFOUR BEATTY *(Possible Merger Partner- Carillion)*

COSTAIN *(Possible Acquirer- Skanska/ACS)*

MORGAN SINDALL *(Possible Acquirer- Vinci Taylor Woodrow/ Bouygues)*

KIER *(Possible Merger or Acquisition of- Interserve)*

CARILLION *(Possible Merger Partner- Balfour Beatty)*

GALLIFORD TRY *(Possible Acquirer of Miller Homes/Interserve)*

INTERSERVE

TAYLOR WIMPEY *(Possible Acquirer of Balfour Beatty/Carillion)*

Balfour is to turn-around its Poor Operating Performance on UK Contracts . Its Market Cap is at a 130% Premium to Net Assets, but Balance Sheet seriously understated with the Directors Valuation of PFIs at £1.2bn. That is why John Laing Infrastructure was looking to Asset strip. Balfour needs to MERGE, rather than try to achieve full overhead savings independently Then it can focus on a forward strategy as a leading Construction Group, and achieve target overhead reductions via economies of scale and synergies. If it does not do this, the risk is that it will be acquired by a foreign entity (French, Spanish, Chinese?) and become part of another company's bigger plan, and lose independence.

Costain has deteriorating Operating Cash Flow and Cash Balances. Mkt Cap is more than twice Net Assets, and its Pension Burden is 25% of Net Assets, and growing. Company needs to focus on operational cash flow; and seek a financially strong ACQUIRER to allow it to invest in its Growth and become a Tier 1 Construction Group. Enterprise Val just £300m

Morgan Sindall has same Enterprise and Market Cap Valuation (ie. No debt). Operating Cash Flow has revived, and with Market Cap-NA at 27% premium to Net Assets, and No Pension Deficit, financially the company is a good cheap buy, and will be ACQUIRED if John Morgan becomes a willing seller. Mgmt has significant shareholding; and the company performs in ROI terms. Its profitable fit-out (synergies with ISG?) and urban regeneration businesses may find a buyer. Spending in social housing has its demographic drivers.

Kier's Operating Cash Flow is still good despite extraordinary losses in 2016. It's Pay-Back, Goodwill, Pension Burden Profiles are average, and seems a candidate for MERGER to realise synergistic savings and thereafter focus on diversification. Kier could build on its smaller businesses of Civils, Overseas, Housing or just grow Non-Construction services.

Carillion is a MERGER candidate. It has been selling off PFIs and its Pension Burden at 40% Net Assets is a problem. Operating Cash Flow is still strong at 19% Enterprise Value. Market Cap is only 6% premium to Net Assets but has Intangible Assets on Balance Sheet (ex- Acquisitions). Opportunity to grow into diversified International Group via MERGER.

Galliford Try Market Cap is strong at £1.1bn; has low Net Debt, & a Pension Deficit manageable at £35m. It is a well Diversified Company, but may benefit from building up its Housing Business via ACQUISITION of Miller Homes. It could also consider MERGER with Kier, a Group of similar size, or ACQUIRE Interserve. Depends whether its focus is housing interests or broader diversification as a Contractor/ Support Services Business

Interserve like Costain and Morgan Sindall has a relatively low Acquisition Cost with Market Capitalisation of £518m (similar to Net Asset Value). But unlike the others, it has Debt and Enterprise Value of £840m. It transferred PFIs into its Pension Scheme and it has a Surplus of £17m. Operating Cash Flow is a healthy 13.6% of Enterprise Value, and it has quality overseas businesses across the Middle East and has recently decided to retain its Formwork Subsidiary RMD. Interserve deserves to get on the Growth Train, and its best route is via MERGER or agreed ACQUISITION with a Bigger Player such as Kier, or Galliford. Try.

Taylor Wimpey came from being a heavily indebted Merged Housing Group in a depressed market, to become Market Leader via a large Rights Issue and turn-around of both the Market and the Company's fortunes. Despite being a Cash Hungry acquirer of Housing Land, TW has relatively low Debt. Its Market Capitalisation is at a strong premium to Net Assets, and Operating Cash Flow is acceptable at c. 9% of enhance Enterprise Value £4.7bn. Taylor Wimpey is a star performer among its Construction Group Peers, but cannot be described as widely diversified, with all its business in UK Housing. Its heritage was more diversified. Its Market value recognises it strong Profitability, Land Bank, Order Book, rather than being the Net Present Value of a less certain long-term cash flow model in a traditionally very cyclical market. The opportunity is for TW to use its Financial muscle, borrowing power, and diversify via M&A. Its 14,000 units per year in UK is probably at a maximum for profit sustainability for a short landbank volume builder. Its M&A growth options are however exciting.

MERGER SCENARIOS- FINANCIALS (2015)

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TOP 10 COMBINATION SCENARIOS

MERGED SCENARIOS (assuming no premium to Mkt Cap)	MKT CAP (£M)	ENTERPRISE VALUE (£M)	NET ASSETS (£M)	PENSION DEFICIT (£M)	OP CASH FLOW (£M)	OP CF/ ENTERPRISE VALN (%)	MKT CAP-NA/ NA (%)	PENSION DEF/NA (%)
BALFOUR/ CARILLION	2981	3323	1843	552	116	3.5%	61.7%	30.0%
KIER/INTERSERVE	1826	2301	1089	106	284	12.3%	67.7%	9.7%
GALLIFORD/ INTERSERVE	1617	1994	1082	18	239	12.0%	49.4%	1.7%
GALLIFORD/ KIER	2407	2615	1145	158	295	11.3%	110.2%	13.8%
MORGAN SIND/INTERSERVE	836	1155	762	-19	150	13.0%	9.7%	-2.5%
TW/BALFOUR/ CARILLION	7803	8017	4566	732	543	6.8%	70.9%	16.0%
KIER/CARILLION/GALLIFORD	3485	3881	2162	564	540	13.9%	61.2%	26.1%
KIER/CARILLION/INTERSERVE	2904	3567	2106	512	529	14.8%	37.9%	24.3%
GALLIFORD/KIER/INTERSERVE	2925	3455	1658	141	409	11.8%	76.4%	8.5%
KIER/GALLIFORD/TW	7229	7309	3868	338	722	9.9%	86.9%	8.7%

Note: Most favoured Combined Groups for Analysis are ***Taylor Wimpey/ Balfour Beatty/ Carillion*** *and* ***Kier/ Galliford/ Interserve*** *(see below).*

COMMENT (Financials)
(assuming no Synergy Savings)

Mergers/ Acquisitions BALFOUR/ CARILLION	**Balfour Carillion** would have the largest Pension Deficit to Net Asset Ratio, and lowest Operating Cash Flow to Enterprise Value (but takes no account of restored BB Operating Cash Flow or Synergistic OH savings) The Group would be the largest & most diversified (non-housing) UK Construction Group with combined businesses in Construction, Support Services, & over £1.3bn PPPs in UK, North America & Middle East.
KIER/INTERSERVE	**Kier Interserve** would have the second lowest Pension Burden and highest Operating Cash Flow to Enterprise performance Ratio. It would be similar in Value to the current Balfour Beatty model, but very different in operations, K/I would derive profits from Interserves Support Services and Equipment Services, complementing Kier's Regional Building Business and Highways Maintenance business, but be seen as an Acquisition by Kier.
GALLIFORD/ INTERSERVE	**Galliford Interserve** combined would have a Market Capitalisation lower than Balfour Beatty, but higher Net Debt at £350m, less scope for growth, but provide Galliford with an established non-construction Support Services Arm
GALLIFORD/ KIER	**Galliford & Kier** are similar businesses in size and both in Construction, Housing and PPPs, Kier having a large Services offer. Combined Enterprise Value would be £2.6bn, larger than any current Contractor.
MORGAN SINDALL/INTERSERVE	**Morgan Sindall/ Interserve** would have the lowest absolute Pension Deficit and Ratio to Net Assets. It would also have the second highest Operating Cash Flow to Enterprise Value, and lowest Goodwill, making it an attractive tie-up based on the numbers. But operationally the Combined Group would have the same Enterprise Value as the current Galliford Try, and take Interserve back into more general contracting, Fit-Out and Partnership Housing which it might not consider its focus for diversification
Combinations TW/BALFOUR/ CARILLION KIER/CARILLION/GALLIFORD KIER/CARILLION/INTERSERVE	**The Combined Group of Businesses of Taylor Wimpey, Balfour Beatty and Carillion** would produce a c.£8bn Market Capitalised Construction Group and clear market leader with next to no Gearing, a mature 'stand-alone' Housing Business with less appetite for net cash consuming growth, and a Balance Sheet to enact a broad Diversification programme to rival European Major Competitor Groups. The Group would be able to manage its considerable combined Pension Deficit of £730m, and generate likely well in excess of £750m Operating Cash Flow, once Balfour Beatty / Carillion merged Synergies are derived, and Balfour Beatty's contracting returns to Profit. **The Combined Group of Businesses of Kier, Carillion and Galliford** would produce a larger Contractor/ Support Servces and Housing mix with a c. £4bn Enterprise Value with £540 Annual Operating Cash Flow (second highest ratio to Enterprise Value at 13.9%), but a 26% Pension Deficit to Net Asset Ratio. **The Combined Group of Businesses of Kier, Carillion and Interserve** would have a similar Pension Burden Ratio, but have higher Gearing and lower Market Capitalisation (albeit at lower Goodwill to Net Assets). But it would have a good balance of Construction to Support Serveices mix (£4.6bn Tnd £5.7bn Turnovers, respectively), and highest Operating Cash Flow to Enterprise Value of 14.8%. **The Combined Group of Businesses of Kier, Interserve and Galliford** would have a nominal Pension Deficit, but poorer Pay-Back and Goodwill comparisons. However, it would provide a n excellent mix of Construction, Support Services and Housing Businesses (c. £4bn, £3bn & £1.5bn) and rival The TW/BB/Carillion combination in market dominance in its sectors, excluding certain infrastructure sectors such as Carillion & Balfour's combined Rail; and Power,etc. **The Combined Group of Businesses of Kier, Galliford and Taylor Wimpey** would have the largets Housing Business of the comparisons but one of the lowest percentage (at £1.2bn) mix of Support Services, so not be the most obvious Merger to produce a well diversified Group.

MERGER SCENARIOS- FINANCIALS (2015)

BUSINESS MIX

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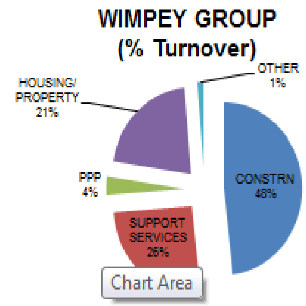
BUSINESS MIX *(Construction v Non-Construction)*		CONSTRUCTION	SUPPORT SERVICES	PPP	HOUSING/ PROPERTY	OTHER	CORE BUSINESS TOTALS
Core Businesses Only							
TAYLOR WIMPEY	*GROUP 1*	0	0	0	3140	0	3140
CARILLION		1860	2534	193	0	0	4587
BALFOUR BEATTY		5220	1234	310	0	191	6955
		7080	3768	503	3140	191	14682
		48%	*26%*	*3%*	*21%*	*1%*	*100%*
KIER	*GROUP 2*	1713	1247	0	320	0	3280
INTERSERVE		1041	2005	0	0	220	3266
GALLIFORD TRY		1282	0	16	1050	0	2348
		4036	3252	16	1370	220	8894
TURNOVER (£m)		*45%*	*37%*	*0%*	*15%*	*2%*	*100%*

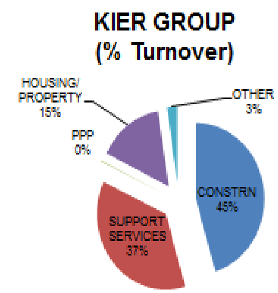
WIMPEY- GROUP 1

CONSTRN	7080
SUPPORT SERVICES	3768
PPP	503
HOUSING/ PROPERTY	3140
OTHER	191

KIER- GROUP 2

CONSTRN	4036
SUPPORT SERVICES	3252
PPP	16
HOUSING/ PROPERTY	1370
OTHER	220



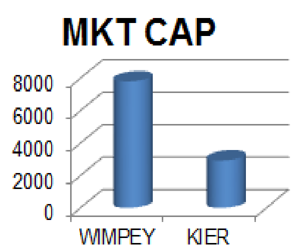


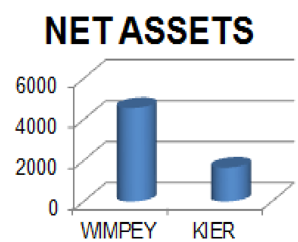
WIMPEY- GROUP 1

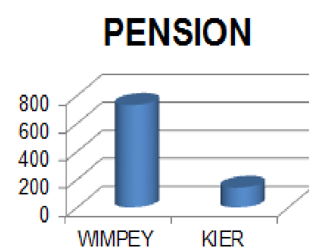
MKT CAP	7803
NET ASSETS	4566
PENSION DEFICIT	732
OPERATING CASH FLOW	543

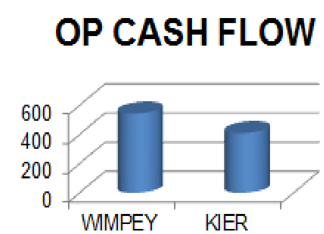
KIER- GROUP 2

MKT CAP	2925
NET ASSETS	1658
PENSION DEFICIT	141
OPERATING CASH FLOW	409









MERGER SCENARIOS- FINANCIALS (2015)
COMMENTS

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COMPANY	COMMENT (Strategy & Operations) (Extracts from Company Analysis- Chapter 3)
BALFOUR BEATTY	"While **Balfour Beatty** is focusing on retrenchment and consolidation in its core contracting businesses, it does not have the luxury to do what it needs to do for the longer term, which is to put in place a strategy, and the financing, for future diversification outside contracting."
COSTAIN	"**Costain** is an admirable survivor with a "steady as you go" strategy and a brand name that has allowed it to continue to punch above its weight since near demise in the early 1990s. But its days as an independent company are probably numbered now the supportive minority shareholders have diluted their holdings and their nominees have left the Board. With its cash position deteriorating somewhat, and future acquisition aspirations of any substance dawning, surely it's time to seek to be positively acquired by a larger financially robust partner who can help it back into a Tier 1 position it deserves, given its unquestionable engineering capabilities."
MORGAN SINDALL / KIER	"At **Kier**, he fundamentals remain strong (2015/16 Operating Cash Flow was £170m despite its Acquisition write-down problems . They are also one of the few Contractors which maintained Property and Housing Arms. With the indigestion from swallowing May Guerney and the sale of the rump of Mouchel behind them, and operationally more diverse, particularly in Highways, for having done so, maybe Kier should look at a Merger rather than Acquisition for its future growth strategy, outside core UK Infrastructure, Regional Building, and Maintenance and Support Services. Kier itself is now seen as a Major Merger partner itself. It has flirted as an acquisitive company for the first time since the MBO from Hanson, with mixed success. As part of a bigger merged Group, with a similar, albeit smaller, player such as Interserve, better synergies are likely to be realised; or maybe a wider diversification by seeking a partner outside construction and construction services."
CARILLION	"**Carillion**:There are compelling reasons why Carillion should find a large Merger Partner. But focusing just on Balfour Beatty's woes since the failed merger in 2014 does not do justice to both sides of the argument. Two years since the failed buy, Carillion's margins have declined at the operating level. Net borrowings, and Pension Deficit, areihigher than expected and a weak pound hurts, as Carillion's private placement borrowing is denominated in US dollars."
GALLIFORD TRY	"**Galliford** is a strong Diversified Housing and Construction Group with a Market Capitalisation of £1.1bn, a Turnover of £2.5bn, PBT £135m and Net Assets of £600m. It will continue to enjoy a buoyant housing market, and may choose to grow by Merger with another complimentary Group like Countryside, or via Acquisition of Miller Homes, which decided not to list in 2014 as planned, but have shareholders wishing to exit. Galliford is a strong Group with no debt. It could seek to make acquisitions (eg. Interserve or Countryside); or merge with a Group like Kier- if its strategy is to grow via M&A."
INTERSERVE	"At **Interserve,** Adrian Ringrose has built up a support services business from its roots as Tilbury Douglas. He has had his set-backs like the August 2006 announcement to the London Stock Exchange that accounting issues relating to the mis-statement of accounting balances had resulted in a £30m write-down, But the Group is strong and well diversified. With a Middle East presence as well, and a Pension Surplus unlike its peers, Interserve is a good candidate for merger to form one of the top tier construction groups in the UK. Due to its low Market Capitalisation, it could otherwise become an acquisition target."
TAYLOR WIMPEY	"**Taylor Wimpey** is a star performer among current UK Construction Groups, even though it cannot be described in any way as widely diversified. Strong Revenues, Profits, Order Book and a quality Land Bank have earned it a deserved c. £5bn Market Capitalisation. Quite a turnaround from the woes of the Post-Merger company debt Crisis and market downturn it faced in 2007. But the Group needs to look to its longer term future, and its new focus might well be on capitalising on its financial strength to diversify outside is total dependency on the UK Housing Market, despite its current buoyancy and outlook."
ACS	"**ACS** (Dragados/Hochtief) strategy for the UK seems to be for measured growth as the company expands its market base with clients such as Network Rail, Transport for London, Highways England, London Underground and HS2.The firm's head count is 246, and based on likely future Project awards, the company might well rank up its plans for the UK. ACS with its financial strength, could conceivably acquire any of the Major 5 Players in the UK, to consolidate its UK position post Brexit. Costain could also be a target."
FERROVIAL	"**Ferrovial** has Amey well established in the uk, and is itself heavily invested in UK infrastructure concessions, particularly airports. Despite the construction of the third runway at London Heathrow, it is considered unlikely, but not impossible, for Ferrovial to make a large construction company acquisition."
BAM	"**BAM** is already established as a Civil Engineering Contractor in the UK. BAM (formerly HBG) also worked extensively with Costain and Carillion (formerly Tarmac) on heavy marine civil engineering projects in the UK like Conway Crossing and Thames Barrier. It is considered not highly likely, but not improbable, that BAM will seek another large acquisition as its M&A route to growth in the UK."
SKANSKA	"**Skanska** is well able to acquire a local contractor to bolster its UK presence. Likely target would be Costain with whom it has regularly joint ventured, and was a minority shareholder and potential acquirer in the 1990s / 2000s."
BOUYGUES	"**Bouygues** M&A- Because of the recent losses, it is less likely that Bouygues is currently seeking to acquire further in the UK, but it has the ability to do so, when it has the will to do so, with major infrastructure projects on the horizon across the UK in coming years."
BALFOUR/CARILLION	"Whether **Balfour Beatty and Carillion** should have buried their differences and reconsidered their opportunities to reopen discussions after 6 months is a question unanswered. Several analysts described the abortive merger talks as a missed opportunity. The two chairmen were likely still not talking after the Takeover Panel's six-month cooling period. However, with the change in leadership at Balfour Beatty, maybe it's time to repair relations, and re-open dialogue."

(Source: Think Big Partnership.com)

MERGED UK SCENARIO GROUPS RANKINGS

TOP 30 RANKINGS (EUROPE)

Source: Deloitte European Powers of Construction 2015

Ranked by Turnover €M

Rank	Company		Sales	Market Capitalisation	EBIT	EBIT %
1	VINCI	FR	38,518	34,801	3,758	9.8%
2	ACS	SP	34,925	8,501	1,439	4.1%
3	BOUYGUES	FR	32,428	12,613	941	2.9%
4	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	**1,158**	**5.2%**
5	SKANSKA	SWE	16,363	7,373	672	4.1%
6	EIFFAGE	FR	14,060	5,493	1,431	10.2%
6	STRABAG	AUS	13,123	2,419	341	2.6%
7	**GALL/KIER/ INTERSR**	**UK**	**12,474**	**4,949**	**358**	**2.9%**
na	*BALFOUR BEATTY*	*UK*	*11,633*	*2,528*	*-251*	*-2.2%*
8	FERROVIAL	SP	9,701	15,270	901	9.3%
9	BAM	NETH	7,423	1,387	-11	-0.1%
10	NCC	SWE	6,681	3,088	325	4.9%
11	ACCIONA	SP	6,544	4,528	627	9.6%
12	FOMENTO	SP	6,476	1,824	324	5.0%
na	*CARILLION*	*UK*	*6,320*	*1,767*	*288*	*4.6%*
na	*INTERSERVE*	*UK*	*5,000*	*1,025*	*101*	*2.0%*
13	BARRATT	UK	4,931	8,625	756	15.3%
14	PEAB	SWE	4,744	2,082	108	2.3%
15	SALINI	IT	4,739	1,980	273	5.8%
na	*KIER*	*UK*	*4,395*	*1,909*	*80*	*1.8%*
16	OBRASCON HUARTE	SP	4,369	1,575	685	15.7%
na	*TAYLOR WIMPEY*	*UK*	*4,326*	*8,974*	*870*	*20.1%*
17	SANAYIAS	TUR	4,105	5,704	560	13.6%
18	PERSIMMON	UK	3,998	8,427	863	21.6%
19	MORGAN SINDALL	UK	3,285	445	-14	-0.4%
20	CFE	BEL	3,239	2,762	266	8.2%
21	PORR	AUS	3,140	813	88	2.8%
na	*GALLIFORD TRY*	*UK*	*3,079*	*2,015*	*177*	*5.7%*
22	IMPLENIA	SWISS	3,079	861	81	2.6%
23	VALLEHERMOSO	SP	2,949	939	148	5.0%
24	ASTALDI	IT	2,855	553	277	9.7%
25	VEIDEKKE ASA	NOR	2,707	1,508	-1	0.0%
26	MOTA ENGIL	POR	2,434	457	168	6.9%
27	ORANJEWOUD	NETH	2,306	471	39	1.7%
28	BELLWAY	UK	2,339	4,195	487	20.8%
29	ISG	UK	2,162	118	-14	-0.6%
30	KELLER	UK	2,152	812	89	4.1%

TOP 10 RANKINGS (GLOBAL)

Source: Deloitte European Powers of Construction 2015

Ranked by Turnover

Rank	Company		Sales	Market Capitalisation	EBIT	EBIT %
1	CHINA STATE	C	126,278	26,981	6,752	5.3%
2	CHINA RAILWAY CONSTR	C	86,120	15,496	2,382	2.8%
3	CHINA RAILWAY GRP	C	86,034	15,978	6,982	8.1%
4	CHINA COMM (CCC)	C	57,880	15,212	3,700	6.4%
5	VINCI	FR	38,518	34,801	3,758	9.8%
6	ACS	SP	34,925	8,501	1,439	4.1%
7	BOUYGUES	FR	32,428	12,613	941	2.9%
8	ODEBRECHT	BRA	34,448	na	4,760	13.8%
9	CHINA METALLURGICAL	C	31,165	5,310	852	0.027338
10	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	**1,158**	**5.2%**

Ranked by Market Capitalisation

Rank	Company			Market Capitalisation	(Europe Rank)
1	VINCI	FR	38,518	34,801	1
2	CHINA STATE	C	126,278	26,981	
3	CHINA RAILWAY GRP	C	86,034	15,978	
4	CHINA RAILWAY CONSTR	C	86,120	15,496	
5	FERROVIAL	SP	9,701	15,270	2
6	CHINA COMM (CCC)	C	57,880	15,212	
7	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	3
8	BOUYGUES	FR		12,613	
9	BARRATT	UK	4,931	8,625	
10	ACS	SP	34,925	8,501	

Ranked by Market EBIT

Rank	Company		Sales	Market	EBIT	EBIT
1	CHINA RAILWAY GRP	C			6,982	8.1%
2	CHINA STATE	C			6,752	5.3%
3	ODEBRECHT	BRA			4,760	13.8%
4	VINCI	FR			3,758	9.8%
5	VINCI	FR			3,758	9.8%
6	CHINA COMM (CCC)	C			3,700	6.4%
7	CHINA RAILWAY CONSTR	C			2,382	2.8%
8	ACS	SP			1,439	4.1%
9	EIFFAGE	FR			1,431	10.2%
10	**TW/ BB/CARILLION**	**UK**			**1,158**	**5.2%**

Clarity

"I think I speak for all of us when I say what in God's name are you talking about?"

CHAPTER 1

THE UK CONSTRUCTION INDUSTRY

OVERVIEW: This Chapter sets the scene for future Mergers and Acquisitions with a look at the size, composition, growth, forecasts and future trends in the UK Construction Industry, with an overall UK Economic Outlook, and understanding of Construction's contribution to it, and the National Infrastructure Plans for the future.

The overall long term outlook remains good. Her Majesty's Government (HMG) has been working with industry organisations to put together a framework for "Construction 2025."

HMG's own "Strengths, Weaknesses, Opportunities, Threats" (SWOT) analysis, and further independent analysis by *Ernst & Young*, predict the potential for a wave of consolidation in the industry. The underlining message is that companies in the industry should focus on consolidation via merger and acquisition (M&A), or prepare to be successfully acquired.

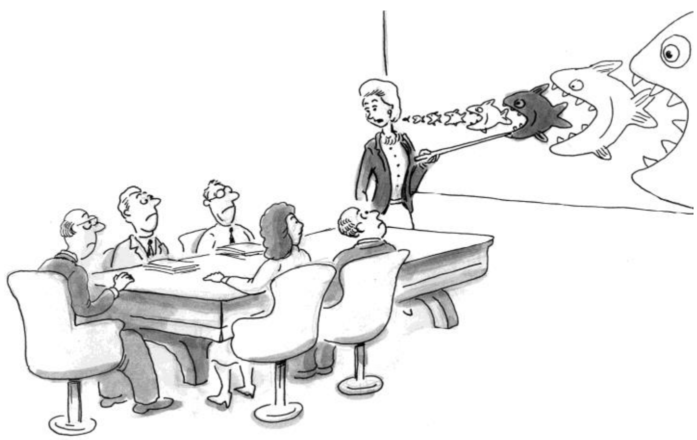
M&A Activity and number of deals in Europe & UK Construction are reported and compared with an all-time high in Global sectors like Telecommunications and Consumer, Retail and Leisure.

Growth and International Expansion is predicted. M&A is likely to be the engine for growth in UK construction sector, and shape its future structure and companies' capacity.

CHAPER CONTENTS:

- GLOBAL ECONOMY & IMPACT ON UK CONSTRUCTION
- THE OVERALL UK ECONOMIC OUTLOOK
- UK CONSTRUCTION MARKET IN 2016
- CONSTRUCTION'S CONTRIBUTION TO THE ECONOMY
- RECENT OUTPUT/ GROWTH 2000-2014 & FORECASTS TO 2019
- LONG TERM CONSTRUCTION OUTLOOK
- NATIONAL INFRASTRUCTURE PLANS (at 2016)
- BREXIT
- INDUSTRY LONG TERM VIEWS
  - -GLOBAL CONSTRUCTION REPORT VIEW 2025
  - -EUROPEAN v UK CONSTRUCTION GROWTH 2025
  - -GLOBAL INFRASTRUCTURE SPENDING
- HMG STRATEGY FRAMEWORK FOR CONSTRUCTION 2025
- HMG SWOT ANANLYSIS FOR CONSTRUCTION 2025
- ERNST & YOUNG CONSTRUCTION 2025- CONSOLIDATION AHEAD
- GROWTH & INTERNATIONAL EXPANSION SCENARIO
- M & A ACTIVITY IN EUROPE & THE UK CONSTRUCTION INDUSTRY
- M & A ACTIVITY IN GLOBAL MULTI SECTORS

Acquire or be acquired



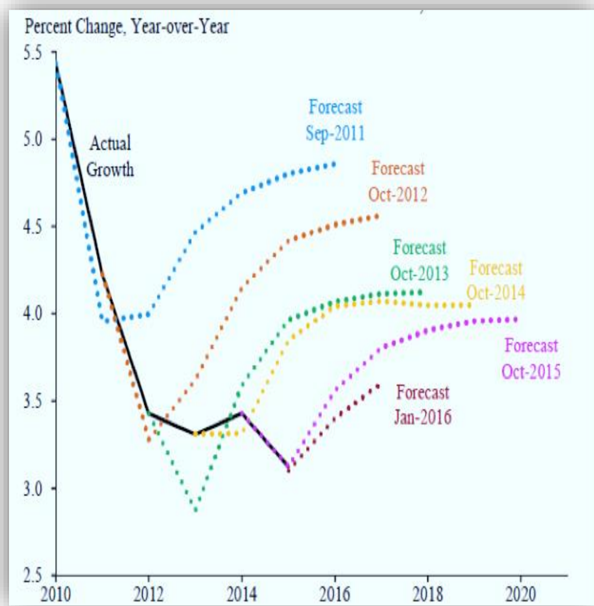
"This is our position"

CHAPTER 1

THE UK CONSTRUCTION INDUSTRY

GLOBAL ECONOMY & IMPACT ON UK CONSTRUCTION

IMF World Real GDP Growth Forecasts, 2010-2020



Source: International Monetary Fund (IMF)

The UK's economic recovery, particularly in property and construction markets, has been closely related to wider, global market forces and the prevalence of inward foreign investment. The International Monetary Fund's (IMF) most recent forecast for global growth is more optimistic than 2015 with estimates of 3.4% and 3.6% in 2016 and 2017, whilst the OECD is forecasting 3.0% and 3.3% in 2016 and 2017 respectively. However, the IMF has still flagged concerns of slow recoveries in developed nations and a spluttering of growth in emerging economies; projected to be impacted by weak trade, investment and commodity prices, low inflation and poor wage conditions. Steep declines in global equity markets and high debt exposures coupled with volatile capital flows in emerging economies are creating substantial risks of financial instability, in the developing world.

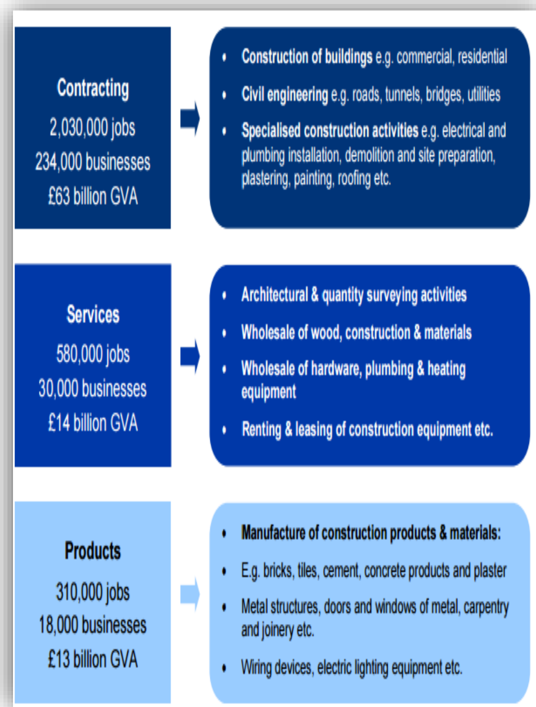
Whilst economic turbulence and uncertainty will have a negative impact on demand globally and regionally, this is likely to be countered in the medium term by proactive demand side policy measures undertaken by governments and central banks in the form of both monetary and fiscal interventions. Negative or very low interest rates, quantitative easing, tax cuts and adjustments to public spending are deployed across a variety of nations to help boost activity and asset prices. Overall, however, investment in infrastructure is expected to grow as nations develop.

THE OVERALL UK ECONOMIC OUTLOOK

Despite some potential headwinds, data shows that the UK's recovery is still one of the strongest in the world, with relatively robust domestic performance. Office for National Statistics (ONS) latest GDP figures for 2016 report growth and, though down from 0.6% in the last quarter of 2015, it is still significantly positive with the fall largely attributable to weaker global trade and volatility in the financial markets at the start of the year. Based on the latest OECD forecasts, future GDP growth is set to be 2.3% per annum and HM Treasury Consensus forecasts released in April 2016 project GDP growth at 2.0% and 2.1% for 2016 and 2017 respectively, which represents a strong prospect for sustained performance compared to other developed nations.

UK CONSTRUCTION MARKET

Composition of UK Construction Sector



Source: ONS Annual Business Survey; GVA Nos Businesses; Employment BIS Analysis of ONS Labour Data

CONSTRUCTION CONTRIBUTION TO THE ECONOMY

Gross value added, the contribution of any industry to the UK economy is best measured by its gross value added (GVA). GVA only considers the actual 'added value' of the industry, and excludes costs incurred in the production process. The table below shows the economic contribution of the construction industry as a share of the economy. In 2014, the construction industry's output was £103 billion, 6.5% of the total economy. The industry's output rose in 2014 by 9.5% in real terms, the biggest increase since at least 1990.

UK Construction contribution to the UK Economy (GVA)

	£ billions (current prices)	£ billions (2011 prices)	Real % change	% of economy
1997	43	79	…	5.5%
1998	47	80	1.5%	5.7%
1999	48	81	1.3%	5.6%
2000	56	82	0.9%	6.1%
2001	59	83	1.8%	6.2%
2002	66	88	5.7%	6.6%
2003	72	92	4.8%	6.8%
2004	76	97	5.3%	6.8%
2005	81	95	-2.4%	6.8%
2006	86	96	0.8%	6.8%
2007	91	98	2.2%	6.9%
2008	90	95	-2.6%	6.6%
2009	81	83	-13.2%	6.0%
2010	84	90	8.5%	6.0%
2011	92	92	2.2%	6.3%
2012	89	85	-7.5%	6.0%
2013	92	86	1.4%	6.0%
2014	103	94	9.5%	6.5%

Sources: ONS series KKI3, KKP5, KL9D

CONSTRUCTION MARKET IN 2016

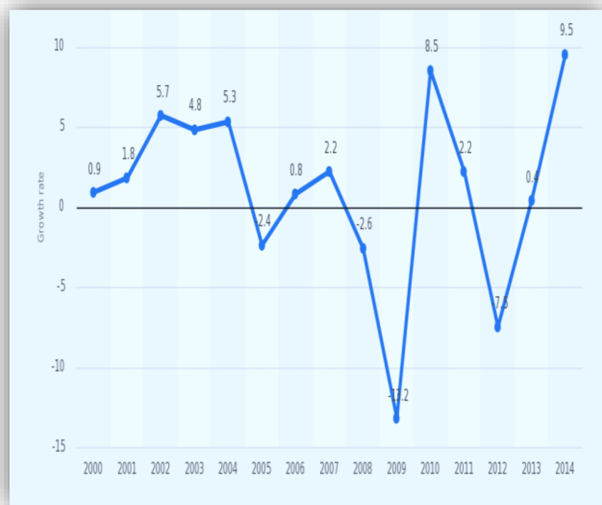
The infrastructure, building and construction industry has seen a substantial increase in pipeline activity, with industry-wide sentiment improving in recent years and greater significance placed on sustainability.

While Brexit has brought uncertainty to the sector the message from government is clear, infrastructure projects should continue as before – with Prime Minister Theresa May suggesting the use of UK Treasury-backed bonds to fund projects. The overall long term outlook remains good.

The recent industry narrative from the past two years and into 2016 has been one of high market demand, rapid price inflation, a bullish supply chain and severe capacity issues. *Construction Products Association* (CPA) data shows that following 2014's heady construction output growth of 8.8%, 2015 saw flatter growth of 6.5%, powered predominantly by growing private investment in housing, infrastructure and industrial sectors (see sector graph). Weak output reported by the ONS at the beginning of this year underlines the fact that patterns of demand are less consistent than in previous years. The CPA forecast further, albeit flatter, output growth of corrections will be temporary in most markets. One unexpected side-effect of fall in London prime values is that they have led to development spreading more widely around the major UK cities, potentially driving additional tender price growth in those locations. In spite of short term uncertainty levels of demand are still strong.

Recent Output/ Growth Rates 2000-2014

Annual Growth Rate of Construction Output Index in UK from 2000-2014



Source: Office for National Statistics (UK)- Statista 2015

The Graph shows historic output growth rates which have swung from peaks to lows since 2005, with the severe effects of the 2007 global financial collapse. However since 2014 the overall outlook for the UK construction sector has been positive. The ONS Outputs and forecasts growths for 2016/2017 are 4.1% and 3.86% respectively (see graph below), and total output in 2016 at £127.5bn. *Deloitte* report its figures slightly lower, that in 2015, the total construction output in the United Kingdom (UK) grew by 3.6%. In 2016, the construction output growth is forecasted at a reported 3.8% to a total volume worth £137 billion. Their assessed rise in construction output is attributed to private housing, commercial and infrastructure construction growth coupled with growth in privately funded projects in the education and the health sector.

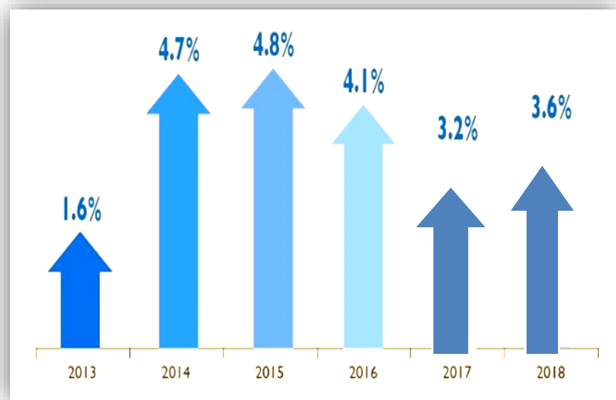
Recent Output/ Growth Rates 2014-2016

Construction Growth Rate by Sector

Source: Internet

Forecast Output/ Growth Rates 2017- 2019

Construction Output (% Growth)



Sources: Buildingco.uk; and ONS Construction Products Association

Forecast growth for 2018 is 3.6% according to ONS. Construction sector growth in the UK is mainly driven by the good economic prospects and consumer, homeowner and business confidence. The infrastructure and industrial output in particular are predicted to grow in the medium term. Infrastructure growth is expected to reach double digits every year between 2017 and 2019, as major projects gain momentum under the £411 billion National Infrastructure plan. Growth is anticipated across road construction (output expected to double by 2019) rail, energy, water and sewerage. Industrial Output is projected to grow by 30% by 2019. Within the industrial sector, warehouses output increased significantly by 45% in 2014, to a value of £1.6 billion (highest level since 2008) due to growth in e commerce and favourable consumer spending.

There are, however, some risks and challenges highlighted by *Deloitte* that may or may not undermine or slowdown growth in the UK construction sector: slower economic growth in China and the recent stock market collapse, and considerable uncertainty regarding the effects of the exit vote of the UK's EU referendum. On top of that, supply chain constraints remain a challenge for the UK construction sector. Key concerns pertaining to skills and materials shortages have already been reported in some sectors.

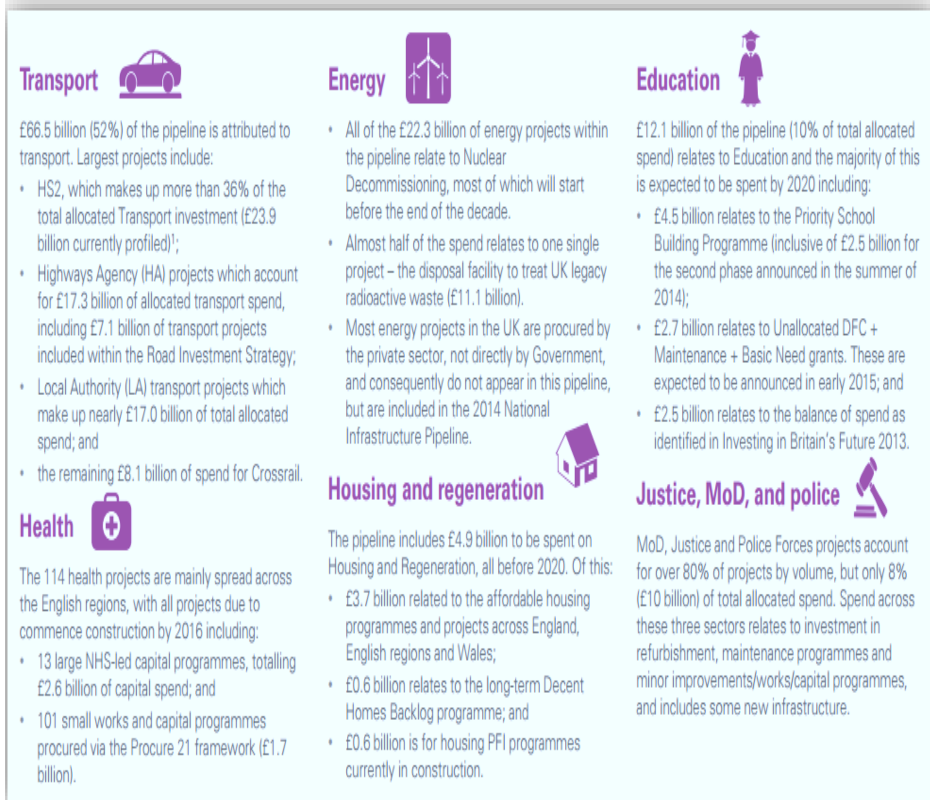
The Report *Global Construction 2025* predicts that taking Western Europe as a whole, the region's construction market will be 5% smaller in 2025 than in 2007. This is due to a combination of declining real wages and unemployment having a negative long term impact on house-building, as well as high levels of public debt meaning there will be little funding available for infrastructure investment. The report forecasts that output growth will struggle to reach 2% in any year between now and 2025.

However, the news is rather better for the UK. Due to a pressing need for new homes and renewed infrastructure on the one hand and the apparent willingness of Chinese and Middle Eastern Sovereign Wealth Funds (SWF) to invest in UK infrastructure and real estate, the report forecasts that UK construction output will grow at 2.1% a year on average up to 2025, and at higher rates than that in 2017/2018, as mentioned above – over twice the rate of the Western European average.

It concludes that by the end of the forecast period the size of the UK market will rival or surpass that of Germany's, with output of $315bn and $342bn respectively.

CONSTRUCTION PIPELINE OVERVIEW

KPMG undertook a Study into the likely timing of the large Infrastructure Spend commitments from 2014 through to beyond 2020, prior to Brexit. An up-date of Infrastructure spending commitments is given below.



LONG TERM CONSTRUCTION OUTLOOK (EUROPE)

Construction Start Date Highlights

2015-2016

43% of the volume of projects (1,385) included in the pipeline are due to commence in the next 2 years, but represent only 19% of allocated spend (allocated value of £24.5 billion). This is due to the inclusion of 1,282 MoD, Justice and Police Force projects which have proportionately lower spend per project (total value £3.1 billion). Other projects include:

- £14.3 billion for 52 Transport projects (including £7.1bn for SR13 funded Roads Investment Strategy projects; £4.4bn for the HA road renewals programme; and £1bn of Smart Motorway projects);
- £3.0 billion for 5 Energy (nuclear decommissioning) projects;
- £2.3 billion for 33 Health projects (remaining Procure 21 projects); and
- £1.6 billion for 4 Housing projects (the remaining PFI and unallocated affordable homes funding)

After 2016-2020

19% of the total pipeline (£23.4 billion) is expected to start construction after 2016-2020 representing 8.8% of the total number of projects starting construction, including:

- £16.4 billion to be spent on HS2;
- £1.8 billion of MoD projects, accounting for 251 of the 279 programmes in this category; and
- £2.9 billion on Nuclear Decommissioning projects.

Source: KPMG Construction Pipeline Forecasts Feb 2015

Beyond 2020

Approximately 10% of projects by allocated spend are to commence construction beyond 2020. Of the 60 programmes in this category, 57 are in the MoD sector (£0.4 billion), two projects relate to nuclear decommissioning (the legacy waste disposal facility (£11.1 billion) and providing capacity to treat fuel at Sellafield (£0.8 billion)) and the remaining one is a Coal Authority programme (Mine Water Treatment Schemes).

Various

£10.7 billion (8%) of the overall pipeline are categorised as having various construction start dates (61 projects). Approximately one third (20) of these are Flood defence projects across England, mainly concentrating on reducing the flood risk to homes (£3.2 billion). The remaining 41 programmes are in the Transport sector, including Local Authority led major works projects and Highways Agency renewal schemes.

. *Source: KPMG Construction Pipeline Forecasts Feb 2015*

NATIONAL INFRASTRUCTURE PLANS (2016)

The first half of 2016 has been especially positive and has seen the bedding-in of the National Infrastructure Commission (NIC) following its establishment at the end of last year, the formation of the new Infrastructure and Projects Authority (IPA), the release of the National Infrastructure Delivery Plan (NIDP) & key infrastructure announcements in George Osborne's March Budget including initial development funding for Crossrail 2 and High Speed 3. The recent confirmation of Chinese funding for Hinkley Point Power Station is further good news. With infrastructure investment being such a powerful driver of economic growth and a vital part of the government's efforts to rebalance the economy, it is no surprise that the sector has been in the spotlight. 2015 certainly saw strong output growth and the outlook for infrastructure remains impressive as it goes from strength to strength with the CPA estimating growth of over 50% to 2019 in the sector. The NIDP outlines details of £483 billion of investment in over 600 infrastructure projects and programmes in all sectors and spread across the UK, to 2020-21 and beyond. However, with the government committing to only invest over £100 billion in that period, will the rest of the programme translate into site starts?

Crossrail 2 is certainly well-placed, with the government committing £80m to Transport for London to fund outline designs and feasibility studies. Broad political support, including the new London Mayor Sadiq Khan, as well as high levels of confidence in the ability of such a new line to give return on investment sets out a very strong position. High Speed 3 is also now in a position to develop significantly with £60m given in the Budget, following encouragement from the NIC - this should provide a kick start to transport investment in the North. By contrast, progress of airport expansion faces far greater uncertainty, and is proving much more elusive. There was until late October indecision on the expansion of Heathrow. Delays on these critical projects illustrate the continuing commercial and political challenge that the IPA will need to unlock to secure the high volumes of private sector experience and investment anticipated in the NIDP.

BREXIT

Source: Linkedin.com

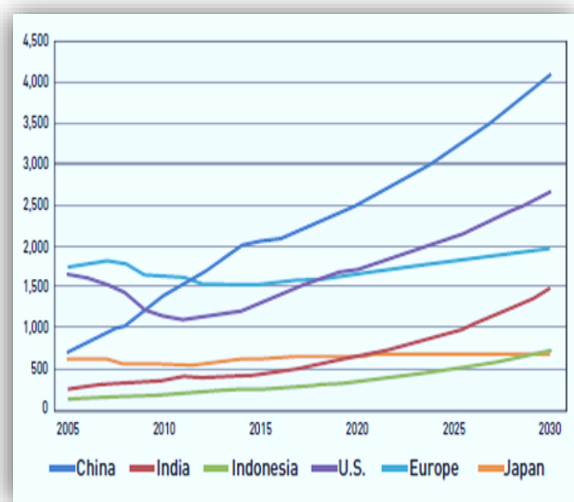
The impact of the EU referendum result on construction, centres on the UK economy's ability to continue to grow, afford finance, propagate spending by the public sector and attract foreign investment. With most assessments forecasting a negative impact on UK GDP in both the short and long term, it is likely that the Brexit out vote will be a negative result for the construction industry, leading to falls in demand and adverse impacts on the financial health and growth of the sector.

INDUSTRY LONG TERM VIEWS (GLOBAL)

Global Construction Report 2025/2030

The global construction market is forecast to grow by over 70% by 2025 according to *Global Construction 2025*. By 2030 the volume of construction output will grow by 85% to $15.5 trillion worldwide, with three countries, China, US and India , leading the way and accounting for 57% of all global growth.

Market Size of Top Construction Markets



Source: Global Construction Perspectives and Oxford Economics

EUROPE v UK CONSTRUCTION GROWTH 2025/2030

Whilst Europe won't recover to reach pre-crisis levels until 2025, the UK is a stand-out growth market, overtaking Germany, as mentioned, to become the largest in Europe and the world's sixth largest construction market by 2030.

So, the UK construction sector will remain buoyant. Having not witnessed the multi-year declines seen in other European countries, the growth path of construction remains stable. A chronic shortage of housing in the southeast region of the UK coupled with an ever growing population should drive new residential construction. This could be one driving factor for consideration by Construction Groups in setting future growth strategy Construction & Housing Development Groups. (Refer to Chapter 5 reference Corporate Strategies and M&A Opportunities).

Healthy business investment will also spur on growth in the non-residential sector. As noted above, the outlook for infrastructure spending is also promising but the Government's commitment to fiscal consolidation may only serve to widen an already significant infrastructure deficit in the UK and dampen growth as publicly funded construction is still expected to shrink further. Although Prime Minister Theresa May has recently suggested the use of UK Treasury-backed bonds to fund projects, the PFI/PPP Model will be a continuing theme of Public/Private Investment; and the Hinkley Point Project, being co-funded by the Chinese is another scenario of future investment funding of infrastructure. HMG's new initiatives Government Support Packages (GSP) will also lend themselves to enhancing Private Sector Investment on very large projects, by mitigating risks for the Private Sector. The Thames Tideway Project is the UK's Pioneer and Flagship Project for this form of cooperation.

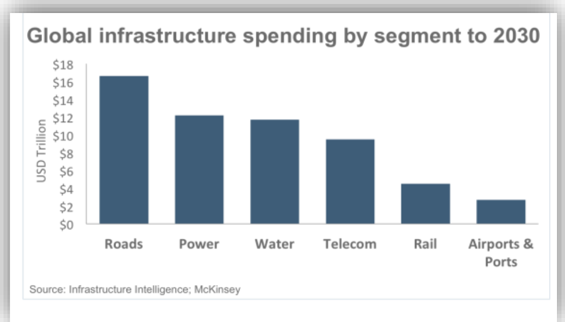
HMG FRAMEWORK UK CONSTRUCTION 2025

Source: HMG UK Construction 2025

GLOBAL INFRASTRUCTURE SPENDING & MARKET SECTOR GROWTH EXPECTATIONS

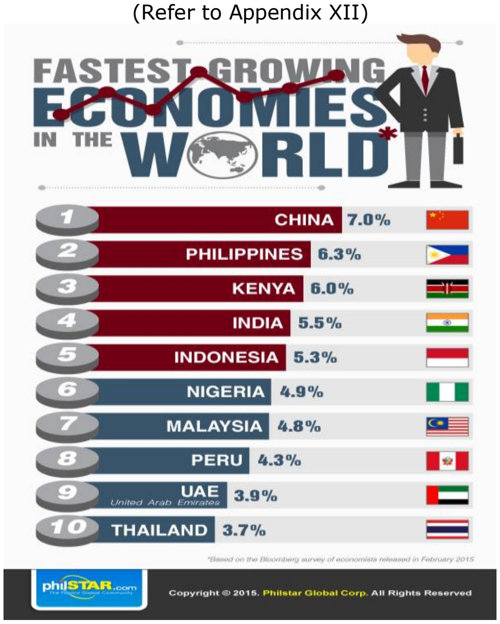
The infrastructure market is projected to grow in the coming years for several reasons. The world is in great need of investment in infrastructure in order to address its growing population and the trend towards urban concentration. Aging infrastructure, new technologies and years of under investment are other drivers. Global infrastructure market spending up to 2030 is expected to reach USD 13 trillion in the Americas, USD 14 trillion for EMEA markets and USD 19 trillion in the Asia-Pacific area. More than 70% of infrastructure investment up to 2030 will be allocated to developing countries. Key factors driving the boom in infrastructure spending are, inter alia, urban development and the growing population in emerging economies as well as the need for replacement of infrastructure in developed countries. A major share of investment will be in Roads, Poer, Water and Telecoms.

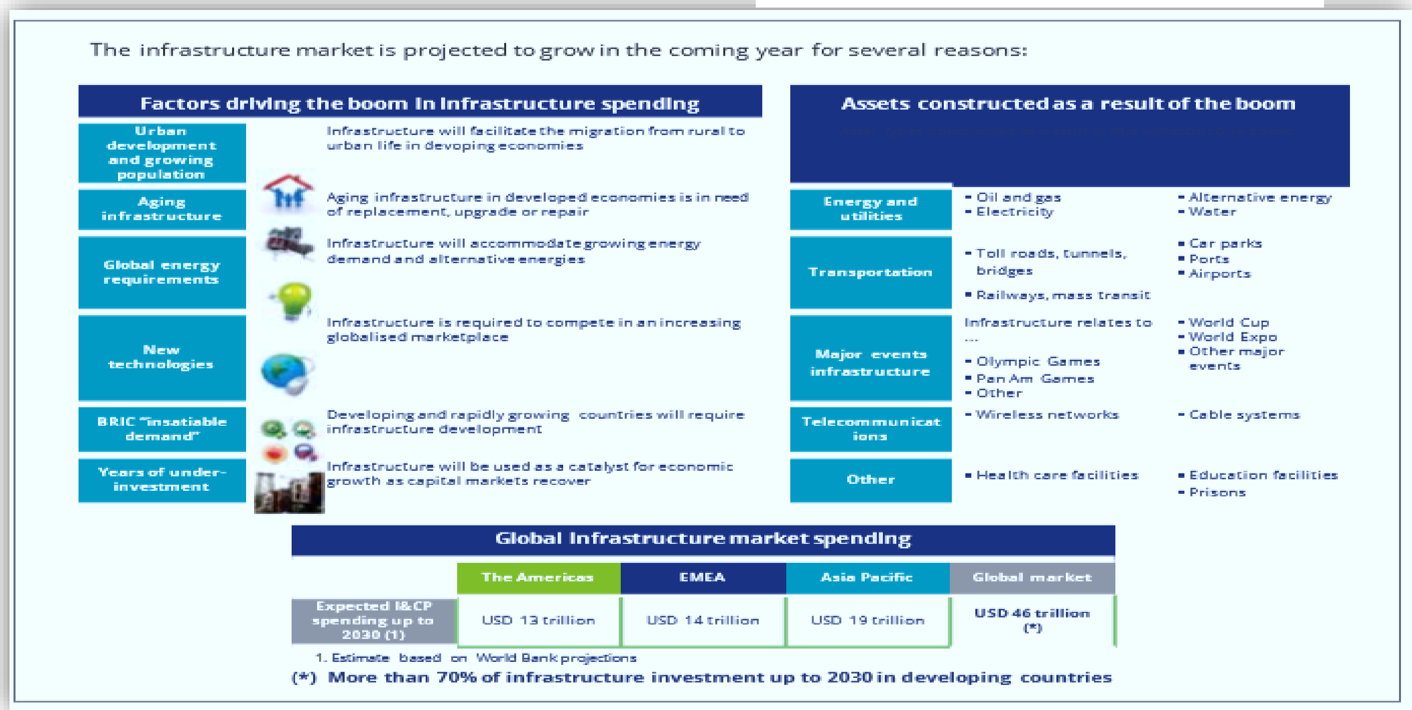
The future UK Construction Majors should have a Strategy for long term Diversification outside the UK, with targets eventually of more than 60% of Revenues and Profits derived from outside the cyclical domestic UK Market. (Please Refer to Chapter 8)



SOME MAJOR, SOME NICHE FAST GROWING ECONOMIES

(Refer to Appendix XII)





Source: Deloitte

HMG PLANS FOR UK CONSTRUCTION 2025

HMG presented its Plans for the Industry in its Report Construction 2025…

Adding Value and Delivering Construction 2025

Source: HMG UK Construction 2025

Source: HMG UK Construction 2025

Working with organisations supporting the 2025 strategy…

And they seek to add value in the Industry by achieving the following Objectives in delivering Construction 2025…

Construction 2025 is therefore a joint strategy that sets out how industry and government intend to work together over the coming years to achieve the substantial change in five areas, which are:

- An industry that attracts and retains a diverse group of multi-talented people, operating under considerably safer and healthier conditions.
- A UK industry that leads the world in research and innovation, transformed by digital design, advanced materials and new technologies..
- An industry that has become more sustainable through its efficient approach to delivering low carbon assets more quickly and at a lower cost, underpinned by strong, integrated supply chains.
- An industry that drives and sustains growth across the entire economy by designing, manufacturing, building and maintaining assets which deliver whole life value for customers
- An industry with clear leadership from a Construction Leadership Council that reflects a strong and enduring partnership between industry and the government.

To help achieve this, Construction 2025 contains the four numerical targets:

- A 33% reduction in the initial cost of construction and the whole life costs of built assets
- A 50% reduction in greenhouse gas emissions in the built environment
- A 50% reduction in the overall time, from inception to completion, for new build and refurbished assets
- A 50% reduction in the trade gap that exists between total exports and total imports for construction products and materials.

HM Government

HMG SWOT ANALYSIS, CONSTRUCTION 2025

(note below)

Future Direction: Integrated World Class Design & Construction / Global Expansion & Trade / Access to Finance

There are several issues raised in the Report's SWOT which might expect Construction Companies to look to grow through broadening their in-house Scopes of Service Provision, including Design, and other Sector Integration, as well as International Growth & Trade. And with growth and financial strength will come the ability to raise finance for yet futher growth, and fund tendering costs and equity for PFI Projects.

STRENGTHS	WEAKNESSES
KEY SECTOR TO UK ECONOMY wider construction accounts for nearly 7% of UK's value added; of which: construction related products and services account for about 1% each and contracting accounts for about 4.7%.[5] Some 3 million jobs are based in construction; 10% of total UK's employment.[6] **WIDER ECONOMIC SIGNIFICANCE** construction sector builds and maintains workplaces to enable businesses to flourish; the economic infrastructure underpinning how economy. functions; provides schools, hospitals and homes. **LARGE SUPPLY CHAIN** accounting for around £124 billion of intermediate consumption,[7] almost all sourced within the UK. In other words, construction spend tends to stay within UK supply chain. **WORLD CLASS DESIGN SKILLS** particularly in architectural design, civil engineering and sustainable construction with BREEAM as an internationally recognised standard. **LOW ENTRY COST AND LOW CAPITAL** required enables small firms to access the market and promotes competition in the sector.	**SECTOR INTEGRATION** vertical integration in the supply chain is low and there is high reliance on sub-contracting. Lack of integration often leads to fracture between design and construction management and a fracture between the management of construction and its execution leading to lost opportunities to innovate. **LOW LEVELS OF INNOVATION** investment in R&D and intangible assets such as new processes (particularly in contracting sub-sector) is low due to uncertain demand for new goods and limited collaboration. **LACK OF COLLABORATION AND LIMITED KNOWLEDGE SHARING** learning points from projects are often team-based and lost when the team breaks up and project ends. Low technology transfer. **HIGH CONSTRUCTION COSTS** in comparison to foreign competitors driven by inefficient procurement and processes rather than material input costs but there are significant opportunities to reduce them through greater use of technology, new materials and innovation.

Source: HMG UK Construction 2025

Will these issues become the drivers for:

GROWTH & INTERNATIONAL EXPANSION

Construction 2025 reports that construction accounts for less than 2% of all UK exports, including products and materials and, given it is near 7% of GVA, suggests ways this poor performance could be improved. Very few of the UK's prime contractors lead on overseas projects in the high-growth global construction markets.

The problem is that UK main contractors find it difficult to win work abroad. Balfour Beatty established itself in the USA and Hong Kong via acquisitions (Parsons Brinckerhoff, Centex and Gammon respectively) and now has around 10,000 employees in each of the latter two, having *sold* PB to WPS. Laing O'Rourke also established viable businesses in Australia (via acquisition of Barclay Mowlem) and Hong Kong, but due to losses in Europe has also been forced to *sell* its profitable Australian business. So overseas company divestments seem more prevalent of late than expansion via purchases.

Carillion has over many years built up businesses in Canada and the Middle East (ex-Wimpey overseas businesses), where revenues now account for 15% and 11% of the firm's £4bn+ turnover. Interserve and ISG also carry out work overseas, the former particularly in the Middle East.

OPPORTUNITIES	THREATS
LARGE GROWTH OPPORTUNITIES IN EMERGING MARKETS with expected annual growth of 6% in construction output until 2021[8] which creates opportunities for UK companies to expand their exports, both in products and high value services. **LOW CARBON CONSTRUCTION** substantial opportunities both in domestic and foreign markets due to environmental requirements and greater societal demand for greener products. Global green and sustainable building industry is forecasted to grow at an annual rate of 22.8% until 2017. **WIDE IMPLEMENTATION OF BIM TECHNOLOGIES** both domestically and abroad which could improve sector productivity and lower costs due to improved information flow and greater collaboration. **COST REDUCTION** industry is capable of delivering its product at substantially lower cost e.g. through greater efficiency and greater technology and information sharing such as Building Information Modelling (BIM). UK government is committed to reduce the costs of public sector construction by 15-20% by the end of 2014/2015.	**ACCESS TO FINANCE** SMEs in construction face more difficulties in accessing bank finance than other sectors. Late payment is a problem. Companies often unaware of support available to them. **SKILLS** substantial fall in apprenticeship completions in construction related sectors relative to other sectors. Low training among self-employed and skills shortages among trade and professional occupations inhibiting technology deployment and innovation. **LACK OF CAREER ATTRACTION** due to perceived low image, lack of gender diversity, low pay and job security due to cyclical nature of demand for construction. This is especially evident in construction contracting and materials. **INTERNATIONAL TRADE** UK has not yet specialised in construction exports despite its capability in construction technology and services and relatively higher proportion of construction-related patents comparing to its competitors. UK remains a net importer of construction products and materials. **HIGH DEGREE OF FRAGMENTATION** relative to other sectors and countries which impacts on levels of collaboration, innovation and ability to access foreign markets

But in general, overseas expansion has proved elusive. As with Balfour Beatty, where contractors have established a strong foothold abroad it has largely been as a result of acquisitions and has required substantial upfront investment - the sort of investment that after five years of economic stagnation, and low margins, few firms in the UK are willing to make at the moment, particularly if they are losing money in the UK.

Construction delivery is generally considered difficult because of the problems of managing supply chain risks in an unfamiliar market; the inherent risks of Contract Conditions in some markets; and upholding Corporate Governance and compliance with Anti-Corruption Laws. When addressing a market overseas the most sensible and de-risked way to do it remains through some sort of professional services role on a project, limiting exposure, while providing good margins and market presence. The ENR's Global Top 20 Project Management companies are nearly all US owned, including: AECOM, Bechtel, CH2MHill, Parsons and Jacobs.

The mind-set of most of today's medium sized Contractors is very much UK-centric. Overseas Design Consultants and Project Managers tend to be more adventurous (due to lower risk profile) and are involved in a combination of Front-End Engineering & Design (FEED) and Detailed Design, Construction Management (CM) and Cost Management. However, it should be possible for the largest main contractors to win lead roles on projects overseas in the future and some firms are embracing the ambition set out in Construction 2025. However, International Contracting for UK Majors will not, and ought never be about lowest price.

Carillion has also set its sights on growing its constructing business abroad, stating that it wishes to develop its Middle East and Canadian businesses into £1bn turnover entities. The Company's growth in both regions continues un-abated by Oil price falls, led by acquisition of an Oil Services company in Canada, and several project successes in UAE, where there is now a drive in the market for UK Export Finance backed projects.

ERNST & YOUNG VIEW ON CONSTRUCTION 2025-CONSOLIDATION AHEAD

To maximise shareholder value, management needs to make a clear assessment whether to focus on consolidation or being successfully acquired. Either way, there is a need for winning strategies that will enhance returns. *Ernst & Young* (EY) sets out its case in conclusions about four areas for focus and advice:

1. Focus on successful consolidation

- Set a clear vision for the business, supported by market trends and organisational capabilities.
- Ensure there is flexibility in the cost base to be able to react rapidly to change.
- Implement long-term financing and achievable debt covenants supported by robust cash forecasts.
- Establish strong working capital performance.
- Manage revenue risks — customer, product, market, competition and pricing.
- Build a scalable business with centralised controls and consistent back-office processes that can be leveraged to support growth.
- Be realistic about post-acquisition synergies.

2. Focus on being successfully acquired

- Actively engage in and align with equity, financial and other stakeholders; make sure they recognise the full value in your business.
- Ensure operational risks (key supplier, input prices, disruptive innovation) are understood and managed; avoid trading surprises.
- Build up cash balances and capital efficiency with robust management of any legacy liabilities.
- Establish transparent market and trading data; ensure your position in the industry is clearly understood.
- Build strong client base.

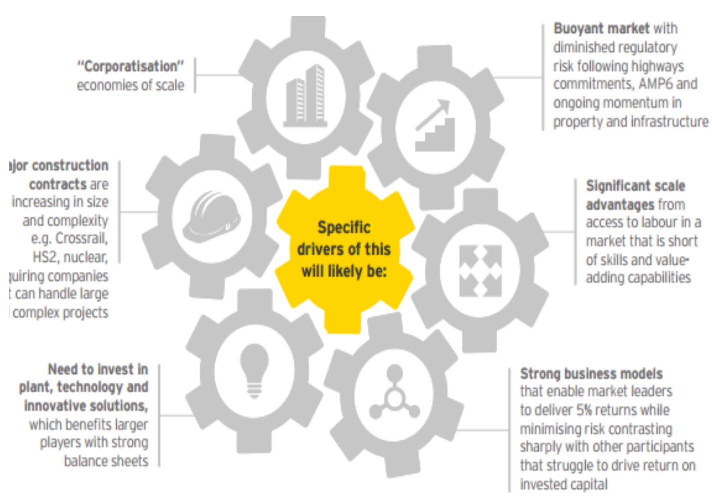
Key Drivers For Consolidation

- **Globalisation** - few, if any, construction companies with a truly global footprint
- **Southeast Asia threat** — buyers looking to invest in UK/EMEIA as an outlet for raw materials
- **Major Projects** - construction contracts increasing in size e.g., Crossrail, HS2, Hinkley, etc.
- **'Corporatisation'** — economies of scale

3. Survival in today's challenging business environment.

Source:

4 Means the potential for a wave of consolidation.

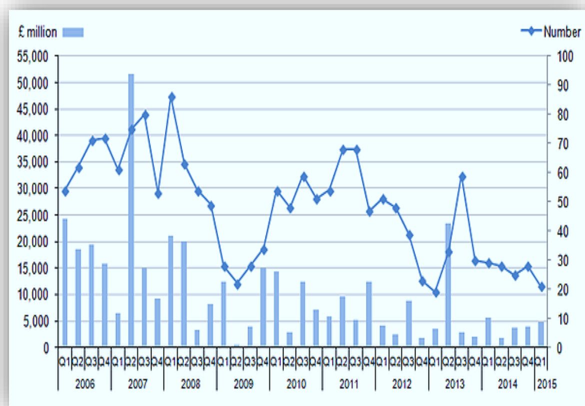


There are many industry analysts who agree with *Ernst & Young's* prognosis for the future; the questions are who will initiate the M&A, and who will become involved to achieve the necessary consolidation.

Size will be important. There will be a need for focus on consolidation via M&A or being successfully acquired. The overall message seems to be: "Grow or eventually Die; Acquire or Merge or eventually be Acquired."

M & A ACTIVITY IN EUROPE & UK CONSTRUCTION

Number of Deals and Value, UK Construction M&A



Source: Sherif Isaac, MBA

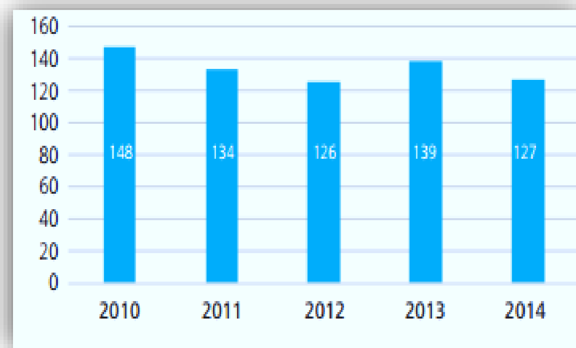
Major M&A deals within the European construction sector remained stable over 2014 and 2015: 129 recorded deals in 2015 compared to 127 recorded deals in 2014. The ongoing recovery in local construction markets may result in a rise of the number of deals compared to the last few years. In the UK, merger and acquisition levels have significantly rebounded since the cyclical lows succeeding the financial crisis.

A list of Major M&A deals over recent years are recorded in Chapter 4. Recently completed large-scale M&A deals in Engineering Consultancy particularly have upset the UK rankings tables, with the pairings of AECOM-URS/Scott Wilson, WSP-Parsons Brinckerhoff, CH2MHill-Halcrow, Arcadis-Hyder and Ramboll-Environ all jostling for position inside the top ten, creating global super companies – in the case of AECOM-URS employing in excess of 100,000 and offering complete life-cycle service provision, including construction risk. The future merger of UK contractors is considered also highly likely and is the main conclusions to this report (Chapter 8); which concurs with *EY's* opinion.

In Europe, consolidation activity has gone up, both in volume and value of transactions, and mergers and acquisitions in the construction industry has led to large companies growing further, thus making it much more challenging for the small to medium enterprises, as it is becoming very tough for them to maintain their competitiveness and profitability.

The *Merger-market* statistics report similar numbers of annual transactions, being relatively stable since 2010.

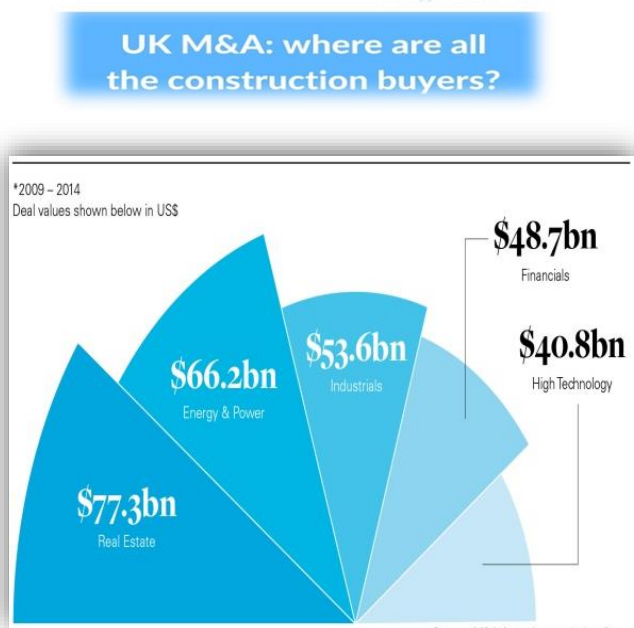
Number of Deals in Construction M&A



Source: Merger-market, 2015

Increased activity post 2016 (albeit from a low base) is likely to set the future direction of the UK Construction Sector Industry Structure and Capacity.

Top 5 active sectors ranked by value of Acquisition Deals in UK



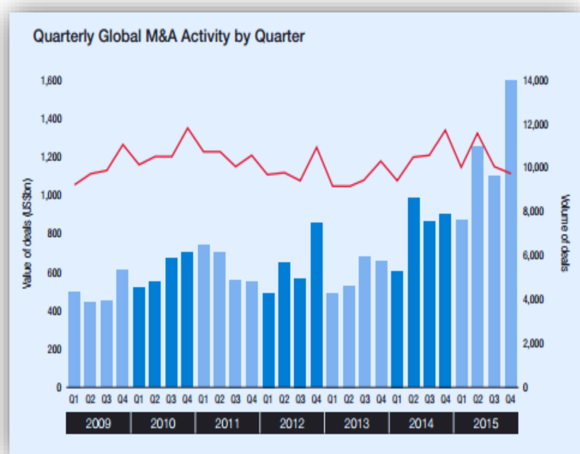
Source: M&A Attractiveness Index, Cass

Real Estate remains an investment draw. Reports suggest that private Chinese investors are already removing their money from China and seeking to invest in UK property, echoing the reactions of wealthy Russians in 2014 when the rouble began to collapse after sanctions were imposed on Russia for the annexation of Crimea. In terms of Construction and Infrastructure, by 2020, *Ernst & Young* believe the construction industry itself will change via M&A and consolidation ahead. This they believe may be initiated by interest from overseas. Entities from Southeast Asia, Sovereign Wealth Funds or continental European operators are all likely to be interested, which is discussed in Chapter 7.

M&A ACTIVITY IN GLOBAL MARKET SECTORS

The relatively low base level of M&A Activity in construction until recently, is despite the backdrop of Global Activity levels in M&As which moved into 2016 at an all-time high, since the 2007 crash, indicating that the Economy is not the main factor contributing to the relative low level of transactions in construction.

Source: Economist.com



Source: Thomas Reuters

Sector Trends in Global M&A

Source: Internet

Sectors with the largest number, and value of Deals continue to be Telecoms, Consumer, Retail and Leisure, Energy, Mining and Ultilities, and Healthcare. Real Estate and Construction rank 5th, by Sector.

Source: Valuewalk.com

While the Developing World and US remain large stable markets for M&A the future of Infrastructure Investment is in developing countries, which according to World Bank projections will account for more than 70% of Infrastructure & Capital Projects investment up to 2030.

Global Infrastructure market spending

	The Americas	EMEA	Asia Pacific	Global market
Expected I&CP spending up to 2030 (1)	USD 13 trillion	USD 14 trillion	USD 19 trillion	USD 46 trillion (*)

1. Estimate based on World Bank projections

(*) More than 70% of infrastructure investment up to 2030 in developing countries

Source: World Bank

GLOBAL CONSTRUCTION TRENDS- ROUND UP

Source:AIG

Growth in the global construction industry is on an unprecedented trajectory, fuelled by the growth of cities and accelerated development in emerging markets. In an increasingly global society, construction projects are no longer bound by borders, bringing both an inter-connectedness and a complexity. For the first time ever, rising economies are hosting the majority of the world's construction projects. In less than a decade, emerging markets have gone from posting a third of the world's construction work to just over half of the industry's total revenue. And in the next ten years, nearly two thirds of all construction activity will take place in these rapidly developing nations. In an economic cycle of booms and busts, this dynamic shift is projected to be a long-standing trend, rather than a simple economic upswing and corresponding downswing. If economists are correct, an expansion of the worldwide construction industry in dollars is set to outpace the growth of the world economy and should continue for decades.

Construction starts around the world are also up due to creative financing. Large private and state-owned firms are financing their own work in exchange for concessions. Road, rail and port facilities are being built in sophisticated exchanges for commodities, including food. And national banks remain a source of low-interest loans to favoured firms, in the recovery from the 2007 Global Financial crash.

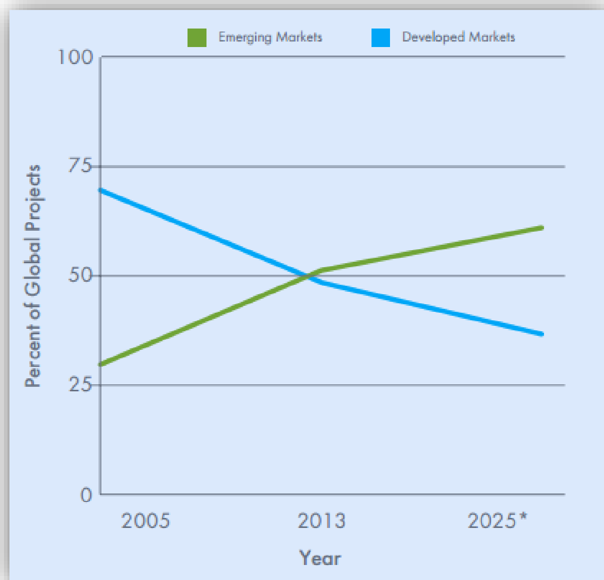
Global growth is increasing the complexity of multinational construction programmes. As a result, infrastructure endevours are more commonly massive in scope, often well over a billion U.S. dollars. Firms are venturing beyond their national borders making global infrastructure delivery a robust forum of foreign construction firms. Fabrication is taking place in multiple countries and a project's supply chain can involve multiple nations. When building, these firms often bring their own work forces, creating small cities of workers to support the large-scale projects in Africa, Latin America and the Middle East. The boundaries of these projects often cross international borders.

Mega Projects, Major Trend Planning, building and maintaining the world's large scale infrastructure projects has triggered the global movement of owners, architects, engineers, contractors and manufacturers from nearly every continent. Today, seven of the 20 largest global construction firms are Chinese-owned. Japan, Spain, France and the United States are represented by two firms each, according to Engineering News-Record's ranking of top global contractors (Refer to Chapter 2 for Rankings).

The growth of a global construction community and the pace of its expansion are set to continue into the foreseeable future. Current global infrastructure demand is $4 trillion annually, according to the World Economic Forum. At that rate, global construction will outpace global GDP by 2025 (according to the publication Global Construction 2025). When looking to 2025, there's going to be a huge shift in volume that's going to be built in emerging markets versus those developed markets.

This presents both risk and reward for UK Groups who have mixed experience of overseas adventures in Contracting.

Construction Growth: Emerging v Developed Markets



Source: Graham Robinson, Global Construction 2025

"Global markets are going to need Players, with Global reach and strength, and local influence. But Corporate Governance and local competition will continue to thwart some UK players' interest in Contracting in some Developing Nations"

Source: Internet images

CHAPTER 2

RANKINGS & INDUSTRY STRUCTURE

OVERVIEW: This Chapter gives an account of the structure of the UK Construction Industry which lends itself to Consolidation and M&A at present (the central theme of this Report). It provides the recent Rankings for the Top UK Contractors and Support Services Companies, UK Housebuilders, UK Engineering Design Firms, and the International Consultants, who have moved heavily into M&A, acquiring the large UK competitors. Of the Top 10, only Atkins, Mott MacDonald and Arup remain outside foreign ownership.

The Rankings of UK Companies within the European and Global Tables are also given, and are very telling about comparable size, and market share. In examining the Structure of the Industry it reports the share of the UK Market held by the Top 15 and Top 100 Companies. The Final Categorisation is that of the large Non-European Groups, and these are mapped according to their level of Diversification outside their Domestic Markets.

UK companies are outranked. Balfour Beatty is the only UK company featured in the Top 10 Europeans, and in terms of the largest Global companies, and International Contractors (ranked by work outside their domestic markets), the UK does not feature at all.

The conclusion and expectation is that the Top 15 Companies in the UK will increase their Market Share by means of M&A, particularly as Equity and Debt Capital will migrate towards them as they seek first Consolidation in the UK, then investment into new Markets and Market Sectors.

The enclosed Tables, and Commentary relate to:

CHAPTER CONTENTS:

- UK CONTRACTORS/ SUPPORT SERVICES COMPANIES
- UK CONTRACTORS & HOUSEBUILDING CONSTRUCTION COMPANIES
- ENGINEERING, PROJECT MANAGEMENT & DESIGN CONSULTANTS
- UK COMPANIES IN EUROPEAN & GLOBAL RANKINGS
- UK INDUSTRY STRUCTURE

  - TOP 15 COMPANIES FOR FOCUS OF M&A STUDY
  -STRUCTURE OF EUROPEAN INDUSTRY
  -CONSTRUCTION INVESTMENT IN EUROPE 2015
  -RANKING OF NON-EUROPEAN GROUPS

- PERFORMANCE & DIVERSIFICATION OF NON EUROPEAN GROUPS

CHAPTER 2

RANKINGS & INDUSTRY STRUCTURE

UK CONTRACTORS & SUPPORT SERVICES COMPANIES (Excl. Housing)

(*) Laing O'Rourke Turnover Reported differently in Construction Index and Building.co.uk Tables. Laing O'Rourke Annual Report states 2015 Managed Turnover £3.6bn.

Top 5 have 59% of Top 15 Turnover

Rank by T/O	Rank by PBT	Construction Company (excl Housing)	2014 Rank by T/O	2014 Rank by PBT	2015 turnover (£m)	2014 turnover (£m)	2015 PBT (£m)	2014 PBT (£m)	2015 margin (%)	2014 margin (%)
1	100	Balfour Beatty	1	100	8,793	8,852	-304.0	-49.0	-3.5	-0.6
2	1	Carillion	2	1	4,072	4,081	142.6	110.6	3.5	2.7
3	4	Interserve	4	4	3,305	2,582	61.9	68.1	1.9	2.6
4	21	Kier Group	3	7	2,985	2,669	14.8	43.0	0.5	1.6
5	13	Morgan Sindall	5	19	2,220	2,095	22.8	13.9	1.0	0.7
6	2	Amey Uk	6	2	2,168	1,762	106.7	78.7	4.9	4.5
7	3	Galliford Try	9	3	1,768	1,467	95.2	74.1	5.4	5.1
8	30	Laing O'Rourke (*)	8	15	1,669	1,640	10.4	21.5	0.6	1.3
9	11	Keller	10	5	1,600	1,438	28.2	52.0	1.8	3.6
10	16	BAM	7	8	1,596	1,647	21.6	32.0	1.4	1.9
11	36	ISG	11	47	1,483	1,284	6.8	2.5	0.5	0.2
12	5	Skanska	13	6	1,260	1,121	41.3	44.2	3.3	3.9
13	18	Willmott Dixon	15	33	1,259	1,023	17.0	6.9	1.4	0.7
14	9	Mace	14	9	1,183	1,108	32.4	28.3	2.7	2.6
15	14	Costain	16	21	1,123	960	22.6	12.9	2.0	1.3

Source: Construction Index- Top 100 Construction Companies 2015 :

Construction Index reported that overall turnover for the Top 100 contractors rose by 7.1% in 2015 but profitability almost halved, with the Top 100 making an average pre-tax return of 0.8% (£462m) on a combined turnover of £59bn. Two companies had the greatest impact on results: Balfour Beatty and the UK operations of Vinci. Their combined exceptional losses were £520m. Eliminating their figures from the calculations, the remaining 98 contractors earned £983m on revenues of £49.6bn in 2015, a return of 2.0%. This compares with profits of £831m on 2014 revenues of £43.4bn, a margin of 1.9%.

The business risk in this sort of financial profile is well illustrated by the fact that these contractors deploy total assets of £35.7bn, have a combined net worth of £9.2bn and are carrying debts of £4.3bn. That equates to a return of just 1.3% on total assets and 5% on capital employed. This compares unfavourably with most European and US counterparts, and provides more credence to the strategies of consolidation through M&A, creating more market dominance for the Top Construction Groups to generate higher and more sustainable margins.

Building.co.uk reported that more than one-fifth of contractors in the overall 150 contractors table reported a loss and, despite a buoyant market and sharply rising construction costs, contractor turnover was broadly static. Most of the contractors are not ready for another downturn.

In addition, in broad terms, the bigger the contractor, the worse they performed.

The contractors ranked 50-100 reported an average margin of a much more steady 3.4%, in line with long-term industry rates, and only six were loss making. Contractors have got nowhere near as far along the recovery path as would be expected at this stage in the cycle. Generally, they will look to rebuild their order books first before rebuilding margins by being truly selective about work. But most have only sort of got through the first stage of that and aren't yet getting full margin. Now they're facing the prospect where order books are starting to dry up again.

More serious is the condition of contractors' balance sheets. Many fell into debt during the downturn and have not yet found a way out of it. Contractors generally are in a much worse financial position going forward than compared with 2008. If contractors currently have depleted reserves; and despite there being longer term prospects of growth, the fear is some companies won't be here to enjoy the up-turn. Mergers, acquisitions, and some company failures are inevitable. One very recent example of struggles was the woes of MITIE. Its share price crashed 29% after a profit warning in early September 2016. But overall prospects are good, even though it seems not all contractors are likely to survive in their present form.

UK BASED CONTRACTORS & HOUSEBUILDING CONSTRUCTION COMPANIES (Incl Housing)

Top 5 have 51% of Top 15 Turnover

Note: Top 5 Companies in Construction command >50% of the Turnover of Top 15; and in the case of Consultants over 70% where Consolidation has most occurred

Rank 2014	Rank 2015	Construction Company UK (including Housing)	2014 T/O (£m)	Change %	2015 PBT (£m)	Year End	Contracting	Housing	Property	Services	Other
1	1	Balfour Beatty Plc	8,793		-304	Dec-14	6,597			1,273	570
2	2	Carillion Plc	4,072	-0.2	173	Dec-14	1,600			2,412	162
3	3	Laing O'Rourke	3,574	0.2	52	Mar-14	3,574				
4	6	Interserve Plc	3,305	28.0	62	Dec-14	1,176			1,913	215
5	5	Barratt Dev's	3,157	21.1	391	Oct-14		3,142	14		
6	4	Kier Group PLC	2,985	11.8	73	Jul-14	1,597		284	1,104	
7	7	Taylor Wimpey	2,686	17.0	450	Mar-14		2,686			
8	10	Persimmon	2,574	23.2	467	Dec-14		2,573			
9	11	Amey Group	2,416	21.1	106.7	Dec-14	1,180			639	
10	8	MITIE	2,266	5.8	41.5	Mar-15			273	1,901	103
11	9	Morgan Sindall	2,220	6.0	22.8	Dec-14	1,172	423	130.3	507	
12	13	Berkeley Group	2,120	30.8	539.7	Apr-15		2,120			
13	12	Galliford Try	1,768	10.2	95.2	Jun-14	833	1,002			15
14	14	BAM UK	1,600	0.0	7.2	Dec-13	1,600				
15	16	Bouygues UK	1,600	13.2	28.3	Dec-14	1,600				

Building.co.uk

Top 15 Housebuilders ranked by Turnover

Top 5 have 55% of Top 15 Turnover

2016	2015	Company	Total turnover £000	% change on 2015	Pre-tax profit £000
1	1	Barratt Developments	3,759,500	19.1	565,500
2	2	Taylor Wimpey	3,139,800	16.9	603,200
3	3	Persimmon	2,901,700	12.7	629,500
4	4	Berkeley	2,047,500	-3.42	530,900
5	5	Bellway	1,765,405	18.8	354,191
6	8	Redrow	1,150,000	33.0	204,000
7	6	Galliford Try	2,431,000	37.5	114,000
8	7	Bloor Homes	972,002	7.4	94,864
9	9	Bovis Homes	946,504	16.9	160,065
10	10	Crest Nicholson	804,800	26.5	120,200
11	16	Cala	436,643	53.0	39,350
12	12	Countryside Properties	426,405	-5.02	34,460
13	15	McCarthy & Stone	376,600	-2.9	60,600
14	17	Hill	303,840	17.6	30,748
15	-	St Modwen	287,500	1.9	235,200

Sources: Building.co.uk

The Top 15 Housing Companies are exhibiting healthy profit margins, albeit at higher levels of capital employed than cash generative contractors. Only Galliford Try and Kier (ranked 17 as housebuilders) are contractors with sizeable Housing Divisions. Galliford turned over £1bn in housing, and Kier £0.83m in 2015. A chronic shortage of housing particularly in the South East Region of the UK, coupled with an ever growing population should drive new residential construction.

The publication of the National Planning Policy Framework (NPPF) means however that there will be much more land available for housebuilders. Land will not be the issue that it was in 2007, the top 20 housebuilders have plenty of land so they don't need to acquire each other just to expand. But contractors with housing interests like Galliford and Kier may acquire to expand; or contractors with no housing businesses at all might acquire in order to enter the more lucrative market, and balance their Group's cash generative and cash consuming businesses so as to fund growth internally.

This could be one driving factor for consideration for Groups seeking growth through diversification and cash utilisation, other than their PFI portfolios which they regularly trade to re-coup equity investment.

ENGINEERING, PROJECT MANAGEMENT & DESIGN CONSULTANTS- BASED ON UK TURNOVER ONLY

Top 5 have 72% of Top 15 UK Fee Turnover

2015 rank	2014 rank	Engineering Consultant	Total UK chartered staff 2014	Total UK chartered staff 2015	UK staff 2014	UK staff 2015	Worldwide staff 2014	Worldwide staff 2015	Annual UK fees (£m) 2013/2014	Annual UK fees (£m) 2014/2015	Offices: UK	Offices: World
1	1	Atkins	2,988	3,867	8,811	10,205	17,489	18,462	930	906	60	163
2	3	Aecom	2,295	3,527	4016	7,423	44,985	84,876	323	644	53	860
3	2	Mott MacDonald	2,847	3,033	5,536	5,933	15,734	16,437	352	395	38	192
4		Arcadis	2,010	2,645	2,700	3,700	22,000	28,000	241	362	47	350
5		WSP Parsons Brinckerhoff*	N/A	1,777	2,522	5,150	N/A	31,000	-	-	36	527
6	6	Arup	1,458	1,561	3,986	4,514	11,931	12,941	312	3451	14	92
7	5	Capita	1,462	1,557	4,201	4,505	4,297	4,547	297	329	43	
8	7	Mace	1,317	1,408	3,085	3,637	4,459	5,160	1,050	1,277	10	302
9	8	Turner & Townsend	1,282	1,363	1,642	1,897	3,660	4,102	174	184	13	90
10	9	CBRE	1,125	1,099	1,958	5,900		52,000	333	-	28	411
11	12	Faithful & Gould	693	700	996	1,007	2,360	2,413	129	135	24	65
12	13	Waterman	549	591	995	1,138	1,108	1,274	60	72	14	19
13	14	Ramboll UK	498	578	1,054	1,277	10,160	12,300	64	99	24	300
14	16=	Gardiner & Theobald	443	508	631	687	855	891	82	953	11	14
15	16=	Gleeds	443	477	729	928	1,293	1,581	65	75	17	56

Source: Building.co.uk

Top 15 International Consultants ranked by International Turnover

Top 5 have 50% of Top 15 T/O

RANK 2015	RANK 2014	FIRM	FIRM TYPE	2014 INT'L REVENUE IN $ MIL	2014 INT'L REVENUE % OF TOTAL REV.
1	4	**AECOM**, Los Angeles, Calif., U.S.A.	EA	4,991.7	48
2	1	**WORLEYPARSONS**, North Sydney, NSW, Australia†	EC	3,945.2	83
3	6	**ARCADIS NV**, Amsterdam, The Netherlands†	E	3,561.0	89
4	5	**FUGRO NV**, Leidschendam, The Netherlands†	GE	3,002.0	88
5	2	**JACOBS**, Pasadena, Calif., U.S.A.	EAC	2,915.3	49
6	14	**WSP|PARSONS BRINCKERHOFF**, Montreal, Quebec, Canada†	E	2,908.1	81
7	3	**FLUOR CORP.**, Irving, Texas, U.S.A.†	EC	2,674.0	67
8	8	**DAR AL-HANDASAH CONSULTANTS (SHAIR AND PARTNERS)**, Cairo, Egypt†	EA	2,373.0	100
9	7	**AMEC PLC**, Knutsford, Cheshire, U.K.†	EC	1,950.6	47
10	11	**CH2M HILL**, Englewood, Colo., U.S.A.†	EAC	1,517.2	43
11	12	**TECHNIP**, Paris, France†	EC	1,431.9	99
12	10	**SNC-LAVALIN INT'L INC.**, Montreal, Quebec, Canada†	EC	1,429.5	49
13	9	**BECHTEL**, San Francisco, Calif., U.S.A.†	EC	1,428.0	65
14	13	**MOTT MACDONALD GROUP LTD.**, Croydon, Surrey, U.K.†	E	1,427.3	69
15	17	**TECNICAS REUNIDAS**, Madrid, Spain†	EC	1,316.1	96

Source: ENR

The large Consultants are becoming more international in their fee winning. Consolidation in the Engineering Consultancy Sector is documented in Chapter 4 on recent M&A Activity. Consultants are becoming Mega International Players where, for example, AECOM now employs over 100,000. Despite the various market pressures, most top consultants have increased their UK based staff numbers in 2015. Global presence and local dominance are a growth issue, driven by the need for qualified staff. Consolidation and M&A has played a large part in this increase with WSP acquiring Parsons Brinckerhoff from Balfour Beatty in late 2014 and Arcadis taking over Hyder Consulting, and the pairings of AECOM-URS/Scott Wilson, CH2MHill-Halcrow, and Ramboll-Environ all jostling for position inside the top ten.

In terms of Global Rankings, British Consultants fare better than their Contracting counterparts. Also some of the recent acquisitions will feature in the US/UK Majors firmly in the Top 20. AECOM/URS/Scott Wilson, CH2MHill/Halcrow, AMEC/Foster Wheeler, Arcadis/EC Harris, are now ahead of the UK independents of Atkins, Motts, and Arup. The future looks bright for global well-resourced Groups. Due to further Consolidation, Acquisition, and International Business the Rankings of the Top 15, in International Revenue Terms changed in 2016, as follows:

1.WSP PARSONS BRINCKERHOFF; 2. ARCADIS ; 3.WORLEYPARSONS ; 4.JACOBS; 5.AECOM; 6. FUGRO ; 7.DAR AL-HANDASAH ;8.FLUOR CORP; 9.MOTT MACDONALD;10.TECNICAS REUNIDAS; 11.SNC-LAVALIN INC;12.AMEC FOSTER WHEELER;13.CH2M;14.ARUP,and 15. ATKINS

UK COMPANIES IN EUROPEAN & GLOBAL RANKINGS

European Company Rankings

Ranking of Top 15 European Construction Companies 2014

Top 5 have 64% of Top 15

	2014 rank	Company	Country	T/O 2013 /14 (€m)	PBT 2013/14 (€m)
1	1	Vinci	France	40,338	1,962
2	2	ACS	Spain	38,373	702
3	3	Bouygues	France	33,345	-757
4	5	Skanska	Sweden	15,775	436
5	6	Eiffage	France	14,264	257
6	8	Strabag	Austria	12,476	114
7	7	Balfour Beatty	UK	12,136	38
8	12	Ferrovial	Spain	8,166	727
9	13	Dalkia	France	7,500	n/a
10	11	Abengoa	Spain	7,357	101
11	14	BAM	Holland	7,042	46
12	9	FCC	Spain	6,727	1,530
13	15	Acciona	Spain	6,607	-1,972
14	16	NCC	Sweden	6,527	225
15	17	Carillion	UK	4,918	133

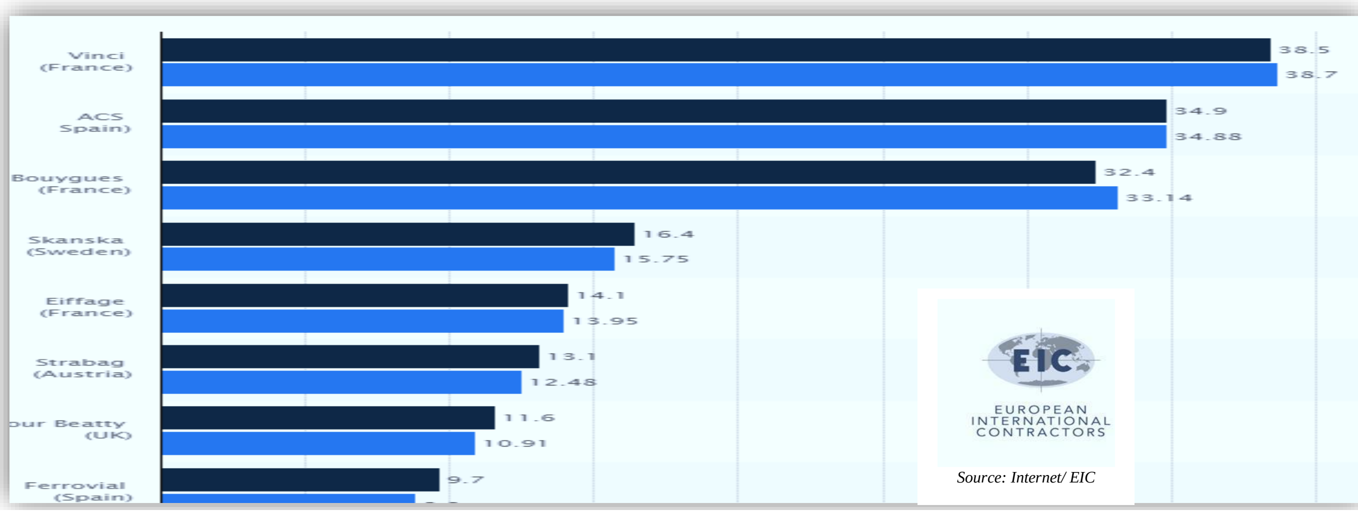
World's Largest Construction Companies

Ranking of Top 15 Global Construction Companies 201

	Sales (US$ million)	Company	Country
1	107765	China State Construction & Engineering (CSCEC)*	China
2	93084	China Railway Construction Corporation	China
3	88741	China Railway Group	China
4	54098	Vinci	France
5	52867	China Communications Construction	China
6	50954	ACS	Spain
7	39400	Bechtel	US
8	34890	Bouygues' Construction Divisions	France
9	34117	Hochtief	Germany
10	31517	China Metallurgical Group (MCC)*	China
11	27657	Daiwa House	Japan
12	27351	Fluor	US
13	21707	Leighton Holdings	Australia
14	20944	Skanska	Sweden
15	20117	Sinohydro*	China

Top 5 have 56% of Top 15 Turnover

Source: NEWS REPORT The Global Top 200



Source: Internet/ EIC

A DIFFERENT LEAUGUE

- Outranked in European Top 10
- A Different League in terms of Top 10 largest Global Contractors or International Contractors.

Outranked: only one UK contractor in the European Top 10
2011 by turnover (€m)

	TURNOVER	COMPANY	COUNTRY
01	37,646	Vinci	France
02	28,472	ACS	Spain
03	24,679	Bouygues' Construction Divisions	France
04	23,282	Hochtief	Germany
05	13,802	Eiffage	France
06	13,714	Strabag	Austria
07	13,150	Skanska	Sweden
08	12,108	Saipem	Italy
09	11,755	FCC	Spain
10	10,928	Balfour Beatty	UK

Source: International Construction

In a different league: the world's Top 10 largest contractors
2011 by turnover (US$m)

	TURNOVER	COMPANY	COUNTRY
01	72,621	China State Construction & Engineering Corp (CSCEC)	China
02	68,848	China Railway Construction Corp	China
03	68,409	China Railway Group	China
04	52,429	Vinci	France
05	45,524	China Communications Construction	China
06	39,652	ACS	Spain
07	34,404	China Metallurgical Group (MCC)	China
08	34,370	Bouygues' Construction Divisions	France
09	32,900	Bechtel	US
10	32,425	Hochtief	Germany

Source: International Construction (Based on 2011 Figures)

ENR TOP 20 INTERNATIONAL CONTRACTORS

ENR Projects Business Talent Regions Tech Products Ideas Costs

RANK 2016/2015	FIRM
1/1	**ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS,** Madrid, Spain†
2/2	**HOCHTIEF AG,** Essen, Germany†
3/5	**CHINA COMMUNICATIONS CONSTRUCTION GROUP LTD.,** Beijing, China†
4/4	**VINCI,** Rueil-Malmaison Cedex, France†
5/3	**BECHTEL,** San Francisco, Calif., U.S.A.†
6/13	**ODEBRECHT ENGENHARIA E CONSTRUÇÃO SA,** São Paulo, SP, Brazil†
7/6	**TECHNIP,** Paris, France†
8/9	**STRABAG SE,** Vienna, Austria†
9/7	**BOUYGUES SA,** Paris, France†
10/8	**SKANSKA AB,** Stockholm, Sweden†
11/11	**POWER CONSTRUCTION CORP. OF CHINA,** Beijing, China†
12/10	**SAIPEM,** San Donato Milanese, Italy†
13/14	**HYUNDAI ENGINEERING & CONSTRUCTION CO. LTD.,** Seoul, S. Korea
14/17	**CHINA STATE CONTRUCTION ENGINEERING CORP. LTD.,** Beijing, China
15/12	**FLUOR CORP.,** Irving, Texas, U.S.A.†
16/15	**FERROVIAL,** Madrid, Spain
17/16	**SAMSUNG C&T CORP.,** Gueonggi-do, S. Korea†
18/28	**JGC CORP.,** Yokohama, Kanagawa, Japan
19/21	**PETROFAC LTD.,** Jersey, Channel Islands, U.K.†
20/23	**CHINA RAILWAY GROUP LTD.,** Beijing, China†

Note: These Companies are ranked according to Construction Revenue outside Companies' Home Countries. No UK Companies feature in the Top 50.

ENR 2016 Top 250 International Contractors

1-100 | 101-200 | 201-250

RANK 2016/2015	FIRM
1/1	**ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS,** Madrid, Spain†
2/2	**HOCHTIEF AG,** Essen, Germany†
3/5	**CHINA COMMUNICATIONS CONSTRUCTION GROUP LTD.,** Beijing, China†
4/4	**VINCI,** Rueil-Malmaison Cedex, France†
5/3	**BECHTEL,** San Francisco, Calif., U.S.A.†
6/13	**ODEBRECHT ENGENHARIA E CONSTRUÇÃO SA,** São Paulo, SP, Brazil†
7/6	**TECHNIP,** Paris, France†
8/9	**STRABAG SE,** Vienna, Austria†
9/7	**BOUYGUES SA,** Paris, France†
10/8	**SKANSKA AB,** Stockholm, Sweden†
11/11	**POWER CONSTRUCTION CORP. OF CHINA,** Beijing, China†
12/10	**SAIPEM,** San Donato Milanese, Italy†
13/14	**HYUNDAI ENGINEERING & CONSTRUCTION CO. LTD.,** Seoul, S. Korea
14/17	**CHINA STATE CONTRUCTION ENGINEERING CORP. LTD.,** Beijing, China
15/12	**FLUOR CORP.,** Irving, Texas, U.S.A.†

Project Runways: Across America's Airport Infrastructure

prev next

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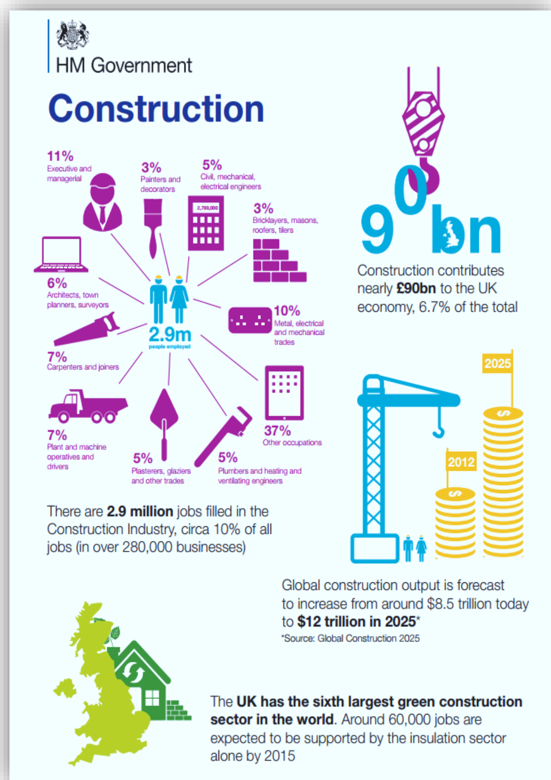
Source: ENR

INDUSTRY STRUCTURE



Source: HMG Construction 2025

Ernst & Young consider that Industry structure and company-specific challenges remain a barrier to a more operationally and financially robust construction sector. The top 25 UK construction companies turned over £42b last year and delivered an earnings before interest, tax, depreciation and amortization (EBITDA) margin of 2.6%. In contrast, Europe's top 10 operators turned over £132b and recorded an EBITDA margin of 8.4%. Return on invested capital (RoIC) for the UK organisations totalled 0.4% in 2014 with only 3 of 25 participants exceeding 5%. *EY* consider that the sector remains handicapped by risk across the contract life cycle, weak portfolio management, poor cash management, margin pressure and flawed structures and procedures.

EY expect the top 15 companies to increase their market share. This is partly as a result of scale advantages but mainly because a handful of organisations have well-run businesses that are able to deliver strong and consistent returns on invested capital. These organisations are backed by relatively healthy balance sheets and sector-leading platforms. Equity and debt capital should migrate towards these entities. This will enable them to grow disproportionately through both organic and inorganic means.

TOP 15 COMPANIES FOR M&A FOCUS

The Companies below have been selected for closer analysis with respect to M&A focus.

M&A FOCUS 2017-2022
Top 5 / Top15

Balfour Beatty
Carillion
Interserve
Laing O'Rourke (Private Co)
Kier Group
Taylor Wimpey
Morgan Sindall
Vinci/Taylor Woodrow
Amey Uk/ Ferrovial
Galliford Try
BAM
Bouygues
Skanska
Costain
Dragados/ Hochtief/ ACS

Top 5 Listed Companies

Balfour Beatty

carillion

Interserve

Taylor Wimpey

KIER

Source:EY

STRUCTURE OF EUROPEAN INDUSTRY

Country	Number of companies	Sales 2015 (€ m)	Sum of Sales 2014	Variation 2015 vs 2014 (a)	Market Capitalisation 2015 (€ m)	Market Capitalisation 2014 (€ m)	Variation 2015 vs 2014
FRANCE	3	85,006	85,789	(1%)	52,907	40,808	30%
SPAIN	6	64,964	63,147	3%	32,636	30,721	6%
UNITED KINGDOM	13	55,434	45,694	21%	41,356	29,871	38%
SWEDEN	4	29,278	28,360	3%	14,567	14,125	3%
AUSTRIA	2	16,263	15,485	5%	3,232	2,730	18%
NETHERLANDS	4	12,558	12,484	1%	2,081	1,237	68%
ITALY	3	8,936	8,097	10%	2,834	2,438	16%
TURKEY	2	5,390	5,921	(9%)	6,176	7,346	(16%)
PORTUGAL	2	3,926	4,048	(3%)	589	851	(31%)
FINLAND	2	3,611	3,823	(6%)	977	762	28%
BELGIUM	1	3,239	3,511	(8%)	2,762	2,152	28%
GREECE	3	3,173	3,087	3%	776	377	106%
SWITZERLAND	1	3,079	2,404	28%	861	887	(3%)
NORWAY	1	2,707	2,876	(6%)	1,508	1,091	38%
DENMARK	2	2,252	2,079	8%	843	670	26%
GERMANY	1	1,656	1,560	6%	298	229	30%
Total	**50**	**301,472**	**288,365**	**5%**	**164,404**	**136,294**	**21%**

Source: Bloomberg, Deloitte analysis

Top 30 by Turnover

Rank 2015	Company	Country	FY End	FY 2015 Sales 2015 (€ m)	FY 2015 % Variation 2015 vs 2014 (a)	FY 2015 EBIT 2015 (€ m)	FY 2015 Market Capitalisation 2015 (€ M)	FY 2015 Ranking 2015 vs 2014 (b)
1	VINCI SA	France	Dec 15	38,518	(0%)	3,758	34,801	=
2	ACTIV. DE CONSTR. Y SERV. SA (ACS)	Spain	Dec 15	34,925	0%	1,439	8,501	=
3	BOUYGUES SA	France	Dec 15	32,428	(2%)	941	12,613	=
4	SKANSKA AB	Sweden	Dec 15	16,363	4%	672	7,373	=
5	EIFFAGE SA	France	Dec 15	14,060	1%	1,431	5,493	=
6	STRABAG SE	Austria	Dec 15	13,123	5%	341	2,419	=
7	BALFOUR BEATTY PLC	United Kingdom	Dec 15	11,633	7%	(251)	2,528	=
8	FERROVIAL SA	Spain	Dec 15	9,701	10%	901	15,270	=
9	KONINKLIJKE BAM GROEP NV	Netherlands	Dec 15	7,423	1%	(11)	1,387	▲ 1
10	NCC AB	Sweden	Dec 15	6,681	7%	325	3,088	▲ 3
11	ACCIONA SA	Spain	Dec 15	6,544	1%	627	4,528	=
12	FOMENTO DE CONSTR. Y CONTRATAS SA (FCC)	Spain	Dec 15	6,476	2%	324	1,824	=
13	CARILLION PLC	United Kingdom	Dec 15	6,320	25%	288	1,767	▲ 1
14	INTERSERVE PLC	United Kingdom	Dec 15	5,000	22%	101	1,025	▲ 4
15	BARRATT DEVELOPMENTS PLC	United Kingdom	Jun 15	4,931	30%	756	8,625	▲ 4
16	PEAB AB	Sweden	Dec 15	4,744	(1%)	108	2,082	▼ 1
17	SALINI IMPREGILO SPA	Italy	Dec 15	4,739	13%	273	1,980	
18	KIER GROUP PLC	United Kingdom	Jun 15	4,395	23%	80	1,909	▲ 3
19	OBRASCON HUARTE LAIN SA (OHL)	Spain	Dec 15	4,369	17%	685	1,575	▲ 1
20	TAYLOR WIMPEY PLC	United Kingdom	Dec 15	4,326	30%	870	8,974	▲ 3
21	ENKA INSAAT VE SANAYI AS	Turkey	Dec 15	4,105	(6%)	560	5,704	▼ 5
22	PERSIMMON PLC	United Kingdom	Dec 15	3,998	25%	863	8,427	▲ 2
23	MORGAN SINDALL PLC	United Kingdom	Dec 15	3,285	19%	(14)	445	▲ 5
24	CFE	Belgium	Dec 15	3,239	(8%)	266	2,762	▼ 2
25	PORR AG	Austria	Dec 15	3,140	4%	88	813	=
26	GALLIFORD TRY PLC	United Kingdom	Jun 15	3,079	45%	177	2,015	▲ 6
27	IMPLENIA AG	Switzerland	Dec 15	3,079	28%	81	861	▲ 3
28	SACYR VALLEHERMOSO SA	Spain	Dec 15	2,949	2%	148	939	▼ 2
29	ASTALDI SPA	Italy	Dec 15	2,855	8%	277	553	=
30	VEIDEKKE ASA	Norway	Dec 15	2,707	(6%)	(1)	1,508	▼ 3

Source: Deloitte

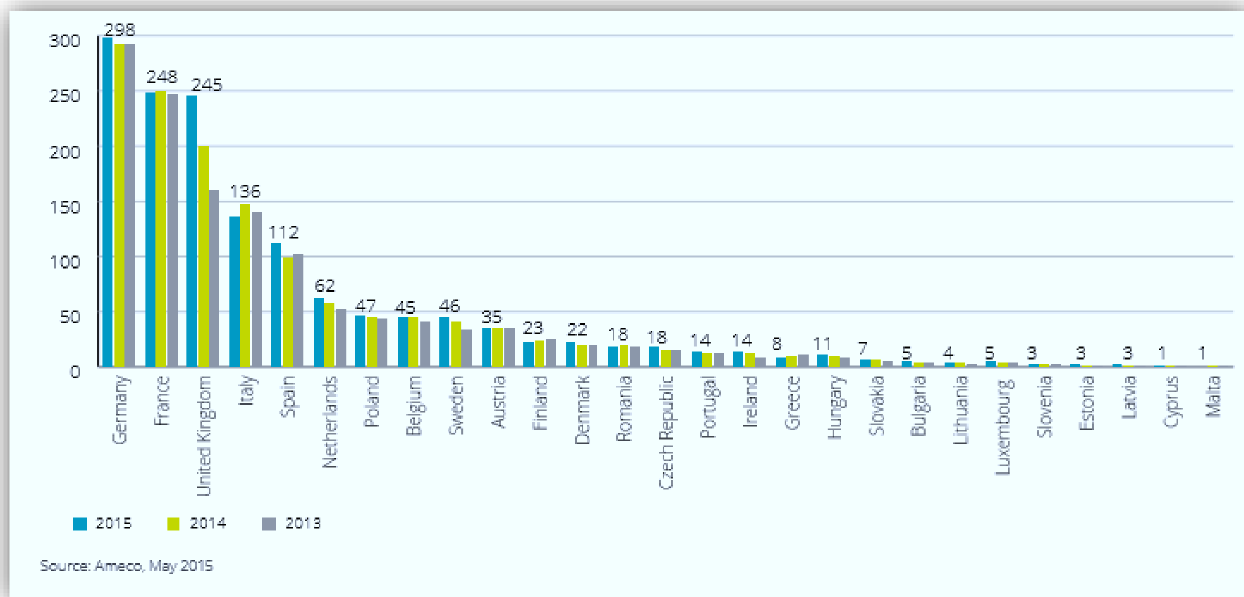
Top 20 By Market Capitalisation

Rank	Company	COUNTRY	Market Capitalisation (€ m) 2015	Market Capitalisation (€ m) 2014	Variation 2015 vs 2014	Ranking change on 2014
1	VINCI SA	FRANCE	34,801	26,851	30%	-
2	FERROVIAL SA	SPAIN	15,270	12,029	27%	-
3	BOUYGUES SA	FRANCE	12,613	10,070	25%	-
4	TAYLOR WIMPEY PLC	UNITED KINGDOM	8,974	5,756	56%	↑ 5
5	BARRATT DEVELOPMENTS PLC	UNITED KINGDOM	8,625	5,998	44%	↑ 3
6	ACTIV. DE CONSTR. Y SERV. SA (ACS)	SPAIN	8,501	9,116	(7%)	↓ 2
7	PERSIMMON PLC	UNITED KINGDOM	8,427	6,198	36%	-
8	SKANSKA AB	SWEDEN	7,373	7,505	(2%)	↓ 3
9	ENKA INSAAT VE SANAYI AS	TURKEY	5,704	6,712	(15%)	↓ 3
10	EIFFAGE SA	FRANCE	5,493	3,886	41%	-
11	ACCIONA SA	SPAIN	4,528	3,218	41%	-
12	BELLWAY PLC	UNITED KINGDOM	4,195	3,043	38%	↑ 1
13	NCC AB	SWEDEN	3,088	2,845	9%	↑ 1
14	CFE	BELGIUM	2,762	2,152	28%	↑ 1
15	BALFOUR BEATTY PLC	UNITED KINGDOM	2,528	1,877	35%	↑ 4
16	STRABAG SE	AUSTRIA	2,419	2,072	17%	↑ 1
17	PEAB AB	SWEDEN	2,082	1,732	20%	↑ 5
18	JM AB	SWEDEN	2,024	2,043	(1%)	-
19	GALLIFORD TRY PLC	UNITED KINGDOM	2,015	1,361	48%	↑ 6
20	SALINI IMPREGILO SPA	ITALY	1,980	1,501	32%	↑ 3

Source: Bloomberg

After the major contraction of the global construction industry caused by the 2007 financial crisis, investment in construction in the EU-28 has grown at a moderate and stable pace since 2014. Forecasts show that it is expected to continue to rise in 2016 and accelerate its expansion in 2017. Nevertheless, it should be noted that growth will not be achieved in all countries that form the EU. Absolute Values of Investment are shown in the Table below.

Construction Investment In 2015 (Euro Bn)



Source: Deloitte

RANKINGS OF NON EUROPEAN CONSTRUCTION GROUPS

ENR Ranking

Company	Country	Ranking 2015 vs 2014
China Railway Group Limited	China	↑ 2
China State Construction Engineering Corporation	China	↓ (1)
China Railway Construction Corporation Limited	China	↓ (1)
China Communications Construction Company Limited	China	=
Vinci SA (**)	France	=
Activ. de Constr. y Serv. SA (ACS) (**)	Spain	=
Power Construction Corporation of China (*)	China	↑ 7
Bouygues SA (**)	France	=
Hochtief Ag (***)	Germany	↓ (2)
Metallurgical Corporation of China Limited	China	=
Bechtel Corporation (*)	Usa	↓ (2)
Shanghai Construction Group (*)	China	↓ (1)
Cimic Group (***)	Australia	=
Skanska Ab (**)	Sweden	↑ 1
Fluor Corporation	Usa	↓ (3)
Strabag Se (**)	Austria	=
Hyundai Engineering & Construction Corporation	S. Korea	↑ 3
Obayashi Corporation	Japan	=
Eiffage (**)	France	↓ (2)
Technip (****)	France	↑ 5
Samsung C&T Corporation	S. Korea	↑ 2
Construtora Norberto Odebrecht	Brazil	↓ (3)
Saipem (****)	Italy	N/A
Kajima Corporation	Japan	↓ (2)
Shimizu Corporation	Japan	↓ (4)

Source: Deloitte

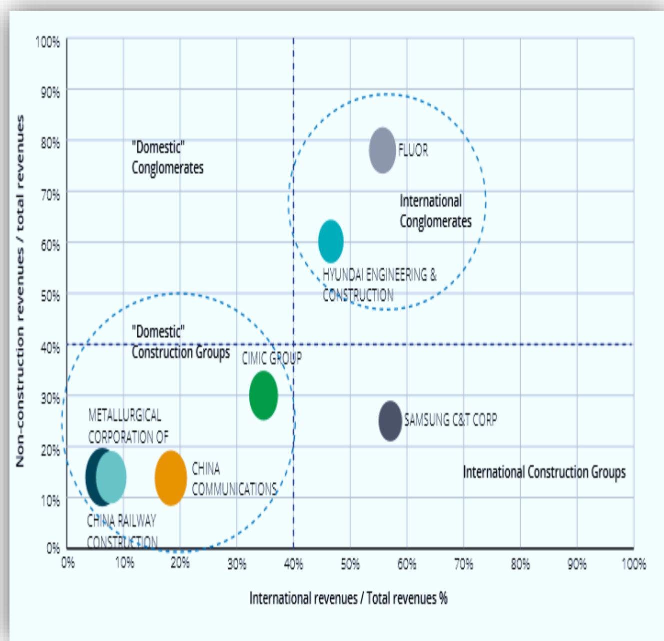
Eight European groups are included in ENR's Top 25 global contractors ranking: Vinci, ACS, HOCHTIEF, Bouygues, Skanska, Strabag, Eiffage and Technip. The German HOCHTIEF group is not included in the rankings as it has been part of the ACS Group since 2011. Technip, with sales of over EUR 12,000 million in 2015 and a market value of more than EUR 6,000 million, is not included in the comparative ranking tables either since it is considered to be an engineering group rather than a construction company.

Without taking into account the EPC companies and European engineering groups, the world's Top 25 is dominated by Chinese (seven) and Japanese (three) companies. It should be noted that six Chinese construction companies are in the Top 10 and just two US construction companies are in the Top 25. The Top 25 list also includes American, Australian, Brazilian and South Korean groups:

PERFORMANCE & DIVERSIFICATION OF NON EUROPEAN GROUPS

Main Financials for the Non-European Groups are given in the Table attached. The Table below *(Deloitte)* classifies Companies by level of Diversification Internationally, and outside General Contracting.

Regarding the diversification and internationalisation strategies of the non-European groups, Chinese Companies are mainly Domestic and not very Diversified away from Construction. China Communications Construction Company Limited, China Railway Construction Corporation Limited and China Metallurgical Group particularly provide mainly construction services in China. None of them have internationalisation and diversification levels over 20%. On the other hand, Fluor Corporation and Hyundai Engineering & Construction are considered to be international conglomerates because they obtained more than 40% of total revenue from non-construction activities in international markets. Additionally, it is noteworthy that only Samsung C&T Corporation is considered to be an "International Construction Group" since construction sales, which are mainly obtained abroad, represent more than 70% of total revenues. The average internationalisation and diversification levels of the non-European companies reached 18% and 24%, respectively, while EPC companies' international and non-construction sales represented 52% and 24%, respectively, of total income.



Source: Deloitte

Company	Country	Sales 2015	EBIT (€ M)	EBIT/ Sales (€ M)	EBITDA (€ M)	EBITDA/ Sales (€ M)	Market Cap. 2015	Market Cap. 2014	Var	Net Debt (€ M)	Equity (€ M)	Net Debt + Equity	Net Debt / (Net Debt + Equity)	Net Debt / Ebitda
China Railway Group Ltd.	China	86,034	6,982	8.1%	7,479	8.7%	15,978	14,436	11%	33,362	19,720	53.081	63%	4.5
China State Construction Eng'g Corp. Ltd.	China	126,278	6,752	5.3%	8,062	6.4%	26,981	29,007	(7%)	3,153	12,020	15,172	21%	0.4
China Railway Construction Corporation Limited	China	86,120	2,382	2.8%	3,051	3.5%	15,496	12,949	20%	49,268	18,244	67,512	73%	16.1
China Communications Construction Grp. Ltd.	China	57,880	3,700	6.4%	5,519	9.5%	15,212	16,032	(5%)	22,692	23,936	46,628	49%	4.1
China Metallurgical Group Corp.	China	31,165	852	2.7%	1,600	5.1%	5,310	5,238	1%	9,462	10,077	19,539	48%	5.9
Subtotal Chinese Groups		**387,477**	**20,667**	**5.3%**	**25,712**	**6.6%**	**78,977**	**77,662**	**2%**	**117,936**	**83,997**	**201,933**	**58%**	**4.6**
Cimic Group Ltd., St. Leonards	Australia	9,049	639	7.1%	1,014	11.2%	5,519	5,139	7%	2,347	2,762	5,110	46%	2.3
Fluor Corp., Irving	Usa	16,326	836	5.1%	1,007	6.2%	6,041	7,423	(19%)	(75)	2,859	2,784	(3%)	(0.1)
Hyundai Engineering & Construction	Korea	15,218	785	5.2%	849	5.6%	2,488	3,544	(30%)	2,609	5,849	8,458	31%	3.1
Obayashi Corporation	Japan	13,409	802	6.0%	912	6.8%	4,353	3,932	11%	2,708	2,762	5,470	49%	3
Samsung C&T Corp	Korea	10,620	30	0.3%	247	2.3%	18,207	6,845	166%	4,942	14,299	19,241	26%	20
Construtora Norberto Odebrecht Sa*	Brazil	34,448	N/A	N/A	4,760	13.8%	N/A	N/A	N/A	N/A	4,660	N/A	N/A	NA
Kajima Corporation	Japan	13,144	838	6.4%	886	6.7%	5,725	4,493	27%	1,068	3,706	4,775	22%	1.2
Shimizu Corporation	Japan	12,558	714	5.7%	801	6.4%	5,846	4,947	18%	1,159	2,623	3,781	31%	1.4
Subtotal Other Groups		**124,772**	**4,643**	**5.1%**	**10,476**	**8.4%**	**48,179**	**36,323**	**33%**	**14,757**	**39,521**	**49,619**	**30%**	**2.6**

Since financial information for the year 2015 is not available, the figures detailed above refer to year 2014

Source: Deloitte

CHAPTER 3.

COMPETITOR ANALYSIS & FINANCIALS

OVERVIEW:

Competitors' 2015 Financial Performance and 10 year comparisons (2005-2015) are given for the Top 5 Companies, in terms of Turnover, PBT, Market Capitalisation, Operating Cash Flow, and Pension Deficits.

It is concluded that all should aspire to reach the Benchmark set by Taylor Wimpey which has the strongest financial performance in the sector in margin, value, and returns on capital employed.

A 10 year comparison gives an insight into the trends over the last decade in PBT, Market Capitalisation and Net Assets. Despite cases of strong cash flow, companies have not increased in market value, and further consolidation is required to extract value and develop strategies for diversification into higher margin complementary businesses.

CHAPTER CONTENTS:

- TOP 5 UK COMPANY COMPARISONS
- COMPETITOR BENCHMARKING
  INDUSTRY GROWTH/ PROFITABILITY MATRIX
- TEN YEAR ANALYSIS AND COMPARISONS 2006-2016
- THE TOP 15- UK COMPANY ANALYSIS AND FINANCIALS:
- THE TOP 20 GLOBAL PEER GROUPS
  (Refer to Appendix 3)
- THE 2007 CRASH & LESSONS FOR M&A

TOP 15:

- BALFOUR BEATTY
- CARILLION
- INTERSERVE
- LAING O'ROURKE
- KIER GROUP
- TAYLOR WIMPEY
- MORGAN SINDALL
- VINCI/TAYLOR WOODROW
- AMEY UK/ FERROVIAL
- GALLIFORD TRY
- BAM
- BOUYGUES
- SKANSKA
- COSTAIN
- DRAGADOS/ACS

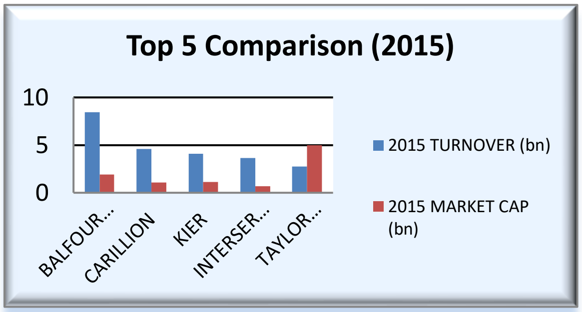
Post-Acquisition Integration

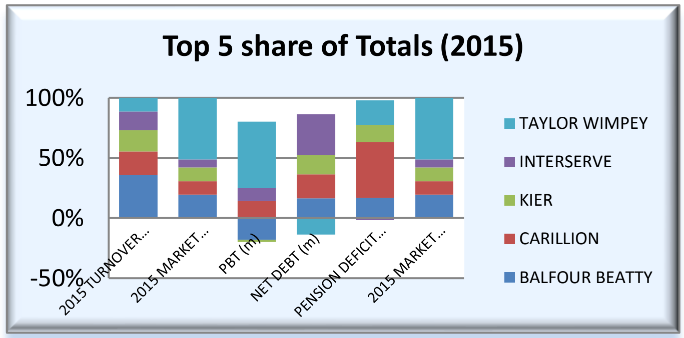
CHAPTER 3.

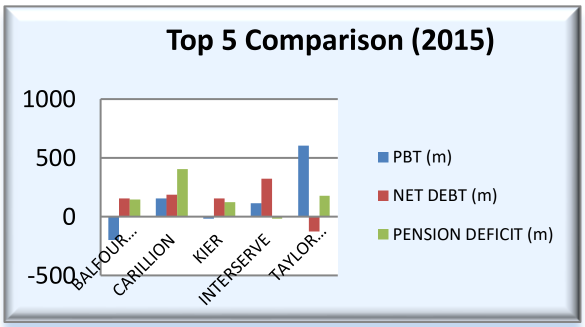
COMPETITOR ANALYSIS & FINANCIALS

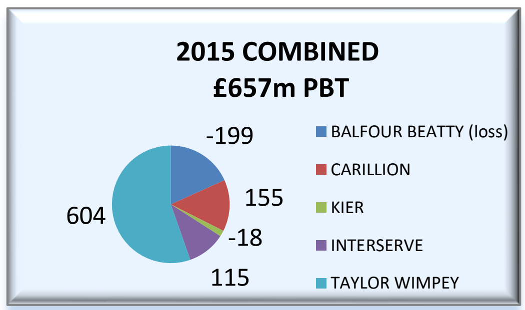
TOP FIVE COMPARISONS

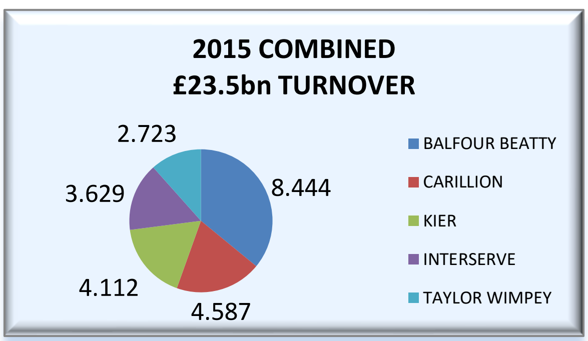
TOP 5 2015 COMPARISONS	2015 TURNOVER (bn)	2015 MARKET CAP (bn)	PBT (m)	NET DEBT (m)	PENSION DEFICIT (m)	2015 MARKET CAP (bn)
BALFOUR BEATTY	8.444	1.915	-199	155	146	1.915
CARILLION	4.587	1.068	155	188	406	1.068
KIER	4.112	1.156	-18	153	123	1.156
INTERSERVE	3.629	0.656	115	322	-17	0.656
TAYLOR WIMPEY	2.723	5.011	604	-128	178	5.011

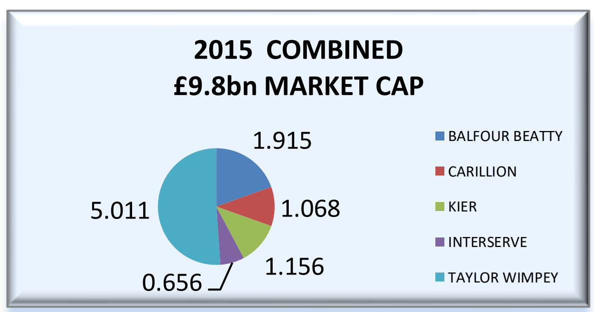












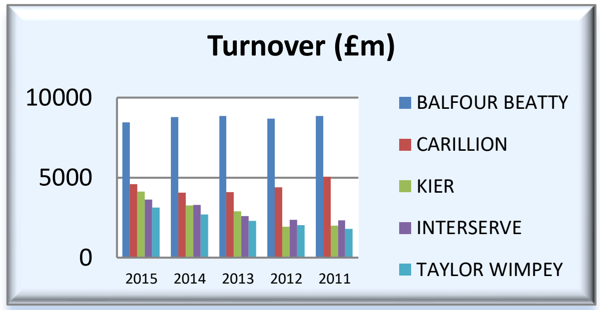
Market Capitalisation
TW 51%, BB 20%, Carillion 11%
(Top 3 account for 82% of combined Mkt Cap)
Total Turnover
BB 36%, Carillion 20%

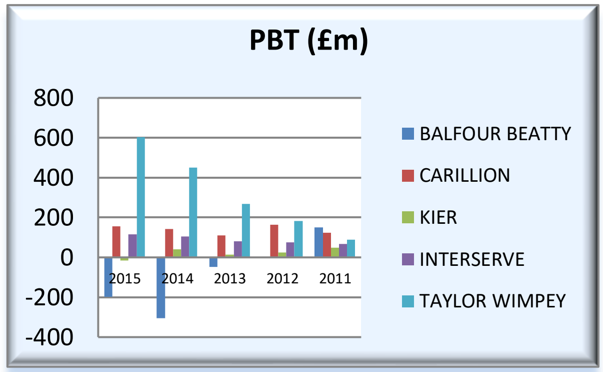
Pension Deficit
Carillion 49% of Total
PBT
TW 91% of Total
(due to BB/Kier losses)

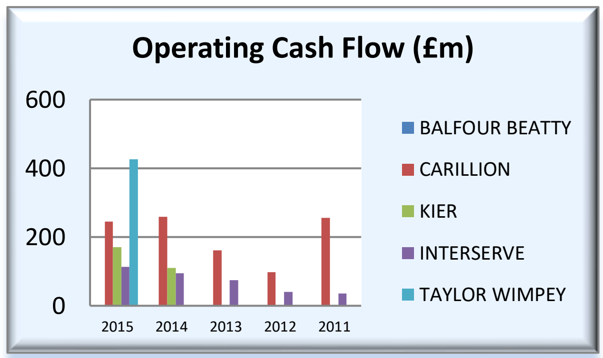
NOTE: Galliford Try Strong 2015 Performance: T/O £2.5bn; PBT £135m ; Net Assets £600m

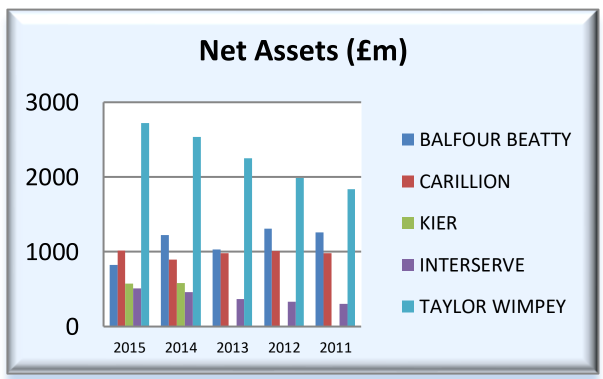
TOP FIVE 5 YEAR COMPARISONS (Cont'd)

TURNOVER (£m)	2015	2014	2013	2012	2011
BALFOUR BEATTY	8444	8793	8852	8681	8842
CARILLION	4587	4072	4081	4403	5051
KIER	4112	3276	2907	1919	2000
INTERSERVE	3629	3305	2582	2370	2320
TAYLOR WIMPEY	**3140**	**2686**	**2296**	**2019**	**1808**
PBT (£m)	**2015**	**2014**	**2013**	**2012**	**2011**
BALFOUR BEATTY	-199	-304	-49	3	150
CARILLION	155	143	111	165	124
KIER	-15	40	15	24	49
INTERSERVE	115	106	81	75	67
TAYLOR WIMPEY	604	450	268	182	90
NET ASSETS (£m)	**2015**	**2014**	**2013**	**2012**	**2011**
BALFOUR BEATTY	826	1227	1033	1310	1259
CARILLION	1017	895	984	1011	983
KIER	576	585			
INTERSERVE	513	464	370	331	301
TAYLOR WIMPEY	2723	2535	2252	1990	1835
OPERATING CF (£m)	**2015**	**2014**	**2013**	**2012**	**2011**
BALFOUR BEATTY	1	1	1	1	1
CARILLION	245	259	161	98	256
KIER	170	110	1	1	1
INTERSERVE	114	95	75	40	36
TAYLOR WIMPEY	427	1	1	1	1







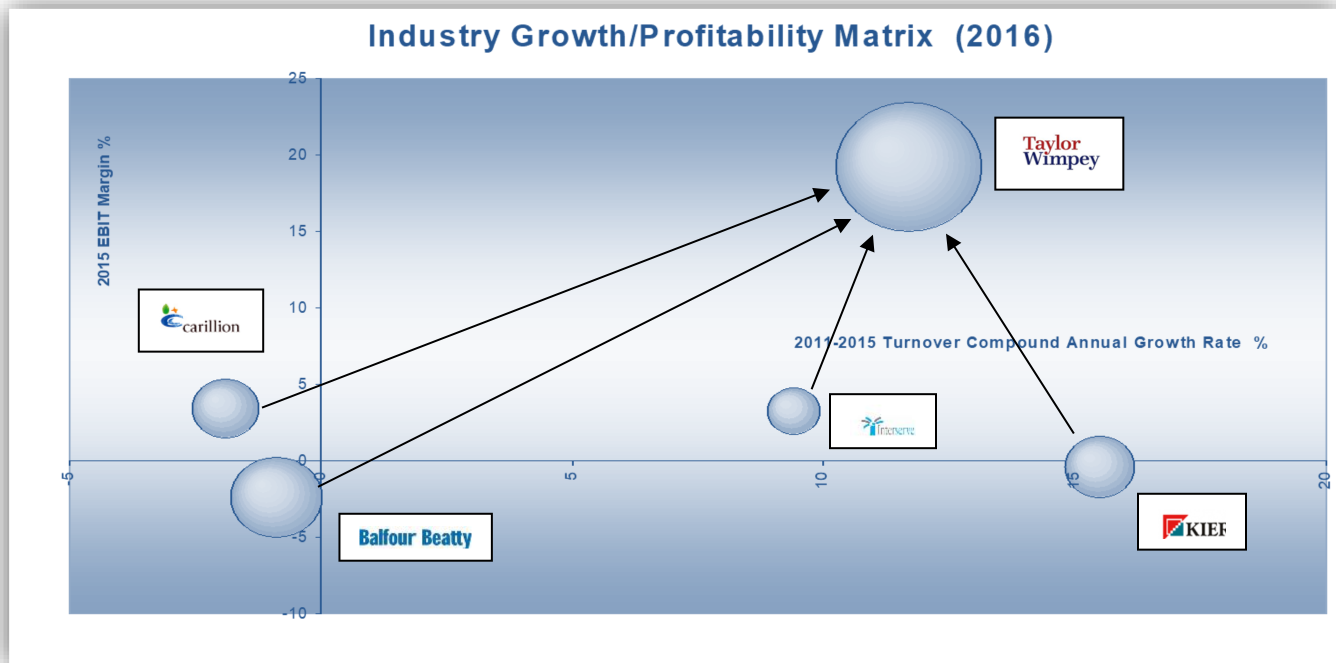


Kier, Taylor Wimpey and Interserve grew in Revenues, but not Carillion or Balfours. Taylor Woodrow posted strongest Profit Margins and Profit Growth, and 12% CAGR in Turnover

COMPETITOR BENCHMARKING

INDUSTRY GROWTH/PROFITABILITY MATRIX

NOTE: Taylor Wimpey, Carillion, Kier and Interserve had strong Operating Cash Flow in 2015, demonstrating sound core business performance. But Taylor Wimpey sets the Bench Mark for the Industry with a PBT Margin of 19.2%, Market Capitalisation of £5bn and CAGR in Turnover of 11.7% since 2011. While it is recognised that Taylor Wimpey is a pure Housing Business and Employs a larger Asset Base than its Contracting Peers (Net Assets £2.7 bn), it still has the highest ratios for Returns on Assets, Net Assets and Equity (13.3%, 22% and 219.9%). [Contractors also have PPP Assets with equity shares which they often trade to make one-off profits. The Borrowings of these Assets are also predominantly Off Balance Sheet/ Non-Recourse].



INDUSTRY GROWTH/PROFITABILITY MATRIX

TURNOVER (£m)	2011-2015 CAGR	
BALFOUR BEATTY	**-0.9%**	
CARILLION	**-1.9%**	
KIER	**15.5%**	
INTERSERVE	**9.4%**	
TAYLOR WIMPEY	**11.7%**	
PBT (£m)	**2015 % Margin**	**RONA 2015%**
BALFOUR BEATTY	**-2.4%**	-24%
CARILLION	**3.4%**	15%
KIER	**-0.4%**	-3%
INTERSERVE	**3.2%**	22%
TAYLOR WIMPEY	**19.2%**	22%
MKT CAP 2015 (£m)	**2015 Market Cap**	
BALFOUR BEATTY	**1915**	
CARILLION	**1068**	
KIER	**1156**	
INTERSERVE	**656**	
TAYLOR WIMPEY	**5011**	

TAYLOR WIMPEY SETS THE TARGET

Taylor Wimpey: High Turnover Compound Annual Growth Rate, High Margin, Highest Market Capitalisation

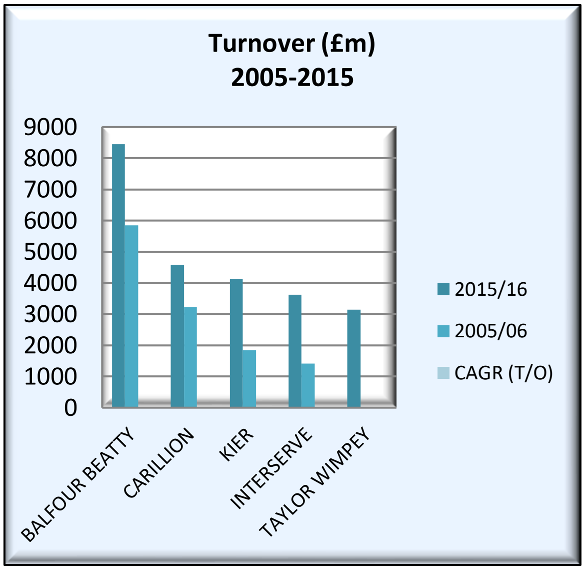
Balfour Beatty: Reduced Turnover and currently Loss making, Market Capitalisation second Highest at £1.9bn

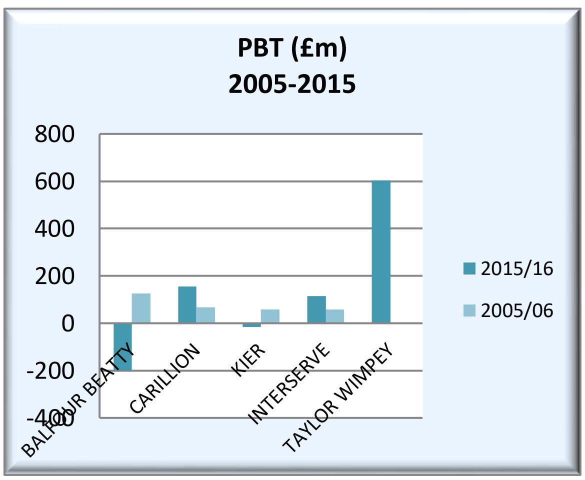
carillion: Stable Margin at 3.4%, slightly reduced Turnover, Market Capitalisation at £1.1bn

KIER: Highest Turnover CAGR due to Acquisitions, but Loss making due to extraordinary items, Market Cap at £1.2bn. (Operating Cash Flow strong at £170m)

Interserve: Strong Growth at 9.4%CAGR, Margins also steady and growing to 2015 level 3.2%, Smallest Market Cap at £656m

THE TEN YEARS COMPARISON ANALYSIS





Comment

Balfour Beatty maintained growth at a Compound Annual Growth Rate of 4.2%, more than doubled its Net Assets, but has suffered from Operating Losses

Carillion also grew steadily at CAGR of 4%, despite acquisitions, and increased Net Assets, albeit has raised Equity at the time of Acquisitions. Market Capitalisation is down slightly over the period, and the Net Asset position contains a high level of Intangible Assets (ie. Goodwill on Acquisitions). Cash Flow is now strong at £245m.

Companies such as Carillion have been involved in significant M&A activities as part of their growth strategies. In most cases, the purchase price paid exceeded the value of the assets acquired, as the investor expected to recover its investments from increased cash flows in future years.

Analysts are focusing on the value of the intangible assets and goodwill that arose as a result of the aforementioned M&A transactions. It is worth comparing market capitalisation, book value and the intangible assets. Companies with a higher intangible assets volume lead to the market trading at a lower premium than average or is trading at a discount to book value (eg. Carillion). It could be considered that the stock markets are discounting the risk associated with the intangibles assets.
Kier has increased its Turnover at CAGR of 9.4% by both organic and inorganic means, and Net Assets risen five fold, but has also fallen foul to write-downs, some associated with acquired businesses.

Interserve has grown admirably at 11.1% CAGR and grown PBT from £58m to £115m while maintaining healthy PBT Margins at 4.1% and 3.2% respectively. However the company has struggled to increase its worth much in terms of Market Capitalisation up from £576m to £656m

Taylor Wimpey was formed by the merger of Taylor Woodrow and Wimpey Homes in 2006 and has gone on, after the struggles of depressed market and high debt at the time of merger to attain a Market Capitalisation of £5bn (cf. with Taylor Woodrow Group at £2.4bn in 2005). Taylor Wimpey has Net Assets of £2.7bn, PBT at £604m (19.2% Margin), and a Turnover of £3.1bn in 2015/16.

10 YEAR REVIEW

Companies had to endure a significant decline in the market, following the Financial Crash in 2007, being the most severe recession since the early 1990s.

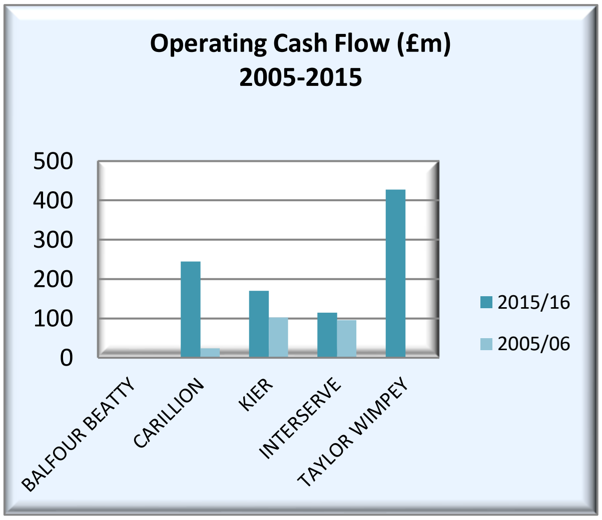
Construction companies in general have continued to grow in Turnover, and most in Market Capitalisation, but few have grown significantly in profitability, with the exception of Taylor Wimpey, which completed a major re-capitalisation via a Rights Issue.

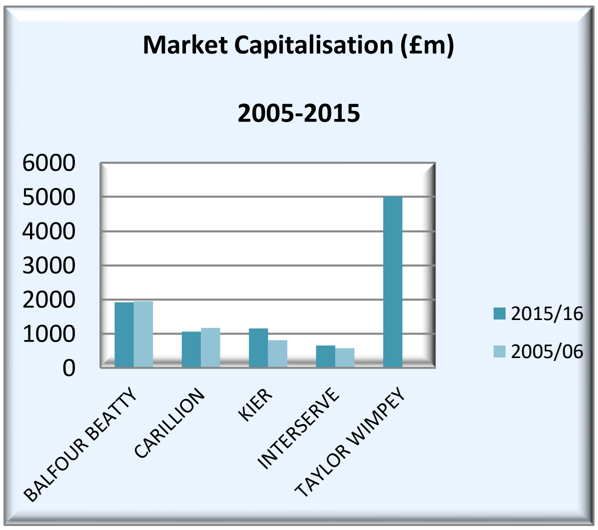
But Operating Cash Flows are generally strong, and as the industry pulls out of recession, these strong cash flows, and strengthened Balance Sheets and Market Values should be put to good use in terms of new diversification into higher margin opportunities. This is a major conclusion of the Analysis, and is generally supported by the successes of European Groups who have made their M&A led diversification work for them in the last decade.

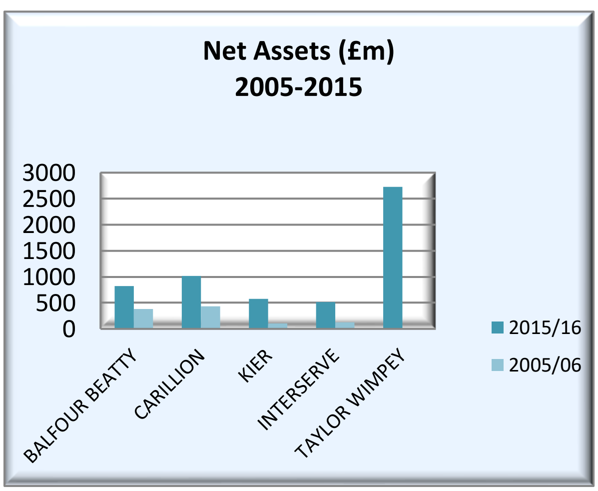
It is significant to compare the climate for M&A in 2017, with that of 2007 as the Global Financial Crisis was about to hit every Industry, and Source of Finance.

Appendix IV gives a detailed and critical analysis of Companies' Financial Positions in 2007. Many of the problems encountered with Cash Management and Profit recognition, still live with Companies of today. Only when Groups attain the size and strength to endure Economic Cycles in core Construction activity, and only when they are sufficiently diversified into longer term contracts and assets- will they be then able to plan for sustainable growth.

As summarised by Sir Neville Simms in his Foreword to this Report: "On the premise that further consolidation in the industry must and will take place, policies and strategies that lead to increased market share, more innovation, improving profitability and more certain returns to shareholders, should lead us to a construction sector that in the future is both financially and operationally stronger."







THE 2007 CRASH & LESSONS FOR M&A

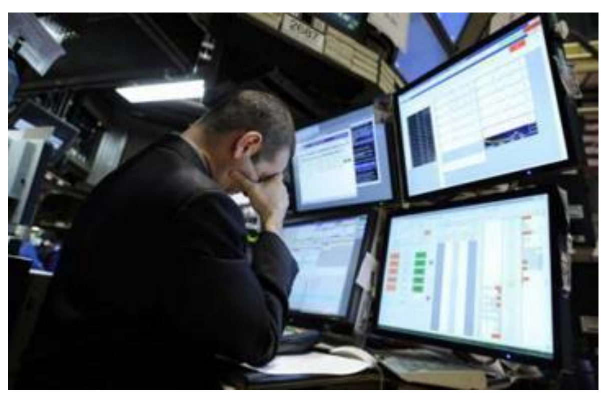
(Please Refer to Appendix IV)

2007 was a pivot year, and worthy of historic analysis, due to three penonema:

- The Global Financial Crisis was about to have a heavy impact on the Global Construction market, and the access to Debt Finance in the market.
- There was a wave of Mergers & Acquisitions going on which was starting to lead to Consolidation in the Industry.
- The Liquidity and Cash reserves of some of the Major Construction companies was weak, and they were vulnerable as a result.

Due to the latter, some companies in the wider population of Company Analysis faltered and some companies divested their contracting business or were acquired (eg. ROK went into liquidation; Amec sold its Construction business to Morgan Sindall; Carillion acquired Alfred McAlpine; Taylor Woodrow Homes merged with Wimpey Homes; and Costain had yet another Rights Issue to replenish its cash shortfall).

The next wave of major contractors' M&A to create the Consolidation required in the Industry will take place in the years to come, as predicted in the main conclusions of this Report.



COMPANY ANALYSIS & FINANCIALS

TOP 20 NON-UK GLOBAL PEER GROUP
(Please Refer to Appendix III)

- VINCI
- CHINA STATE CONST. ENG..
- CHINA COMMUNICATIONS C..
- CHINA RAILWAY GROUP LT..
- LARSEN & TOUBRO LIMITE..
- CHINA RAILWAY CONSTRUC..
- FERROVIAL SA
- POWER CONSTRUCTION COR..
- BOUYGUES
- METALLURGICAL CORPORAT..
- HOCHTIEF AG
- ACS ACTIVIDADES DE CON..
- SKANSKA AB
- TAISEI CORP
- EIFFAGE
- KAJIMA CORP
- FLUOR CORPORATION (NEW..
- OBAYASHI CORP
- CIMIC GROUP LTD
- SHIMIZU CORPORATION

TOP 15 CONSTRUCTION COMPANIES IN UK

- **BALFOUR BEATTY**
- **CARILLION**
- **INTERSERVE**
- **LAING O'ROURKE (PRIVATE CO)**
- **KIER GROUP**
- **TAYLOR WIMPEY**
- **MORGAN SINDALL**
- **VINCI/TAYLOR WOODROW**
- **AMEY UK/ FERROVIAL**
- **GALLIFORD TRY**
- **BAM**
- **BOUYGUES**
- **SKANSKA**
- **COSTAIN**
- **DRAGADOS/ HOCHTIEF/ ACS**

BALFOUR BEATTY

Company Profile

Balfour Beatty plc is an infrastructure company that provides maintenance, upgrade and management services in power transmission, utilities infrastructure, and road and rail. The Company operates through three segments: Construction Services segment, which is engaged in the physical construction of an asset; Support Services segment, which is engaged in supporting existing assets or functions, such as asset maintenance and refurbishment, and Infrastructure Investments segment, which is engaged in the acquisition operation and disposal of infrastructure assets, such as roads, hospitals, schools, student accommodation, military housing, waste and biomass, offshore transmission networks and other concessions.

M&A History

Balfour Beatty was formed in 1909 with a capital of £50,000. Extensive overseas work started in 1924 when Balfour Beatty took over the management of the East African Power & Lighting company. A construction company was bought in Canada in 1969 Power Securities, which by then owned Balfour Beatty, was taken over by cable manufacturer BICC. Then in 2000 BICC, having sold its cable operations, renamed itself Balfour Beatty, via a Reverse Takeover.

Clarke Homes was bought for £51m, giving housing sales of over 1600 in 1988. By the mid-1990s, sales were down to only 500 a year and although no financial figures were ever published, the housing operation was believed to have suffered heavy losses. Balfour Beatty Homes was renamed Clarke Homes and then sold to Westbury in 1995.

Balfour Beatty has embarked on a series of acquisitions including Mansell plc, another construction services business, for £42m in 2003, Birse plc, a UK construction & Civils contractor, for £32 m in 2006, Centex Construction, the commercial construction division of the US builder Centex, for £180m in 2007 and Cowlin Construction, a UK construction company based in Bristol also in 2007.

In 2008 the Company bought GMH Military Housing, a US-based military accommodation business, for £180m and Dean & Dyball, a leading UK regional contractor, for £45 million.

In September 2009 the Company agreed to buy Parsons Brinckerhoff, a US-based project management firm, for $626 million. In October 2010 the company bought Halsall Group, a Canadian professional services firm, for £33 million and then in November 2010 the company bought the remnant of collapsed UK construction company Rok plc for £7 million. In June 2011 it went on to buy Howard S. Wright, one of the oldest contractors on the West Coast of the United States, for £58 million as well as Fru-Con Construction, a US water and wastewater contractor, for £12 million and in January 2013 it bought Subsurface Group, a US consulting and engineering firm.

In mid-2014, the company rebuffed three offers by rival Carillion for the two companies to merge. The last bid, which valued Balfour Beatty at £2.1 billion. The company sold Parsons Brinckerhoff to WSP Global for $1.24bn in October 2014.

Market Capitalisation

Market Capitalisation:	£1,914.03 million
Shares In Issue:	689.74 million

Source: Citywire 11/10/2016

Consensus Analysts Recommendation

As of Oct 07, 2016, the consensus forecast amongst 10 polled investment analysts covering Balfour Beatty plc advises that the company will outperform the market. This has been the consensus forecast since the sentiment of investment analysts improved on Mar 18, 2016. The previous consensus forecast advised investors to hold their position in Balfour Beatty plc.

Source: Market.ft.com

Chief Executive

Leo Quinn

"The Mighty Quinn" Turn-around Specialist is confident his Build to Last programme is on track

An Overview

Until Quinn concludes his 24 month "turnaround" he will continue to "take a bath" on declaring losses. At least that means the Work-in-Progress is now more conservatively accounted for any Due Diligence on Merger. Latest losses, apart from operating losses off incomplete projects where profits have already been taken, are said to have been caused partly by lower overhead absorption due to the lower revenue base. The Merger based Consolidation Strategy was all about finding Overhead Synergies and focusing on quality based UK contracting needs going forward. Most of Balfour's historic Acquisitions were not about synergy, but about new markets- eg. USA. However, by now reducing the number of small regional contracts- it makes the 1990's drive to buy UK Regional Contractors that much more dumb-founding.

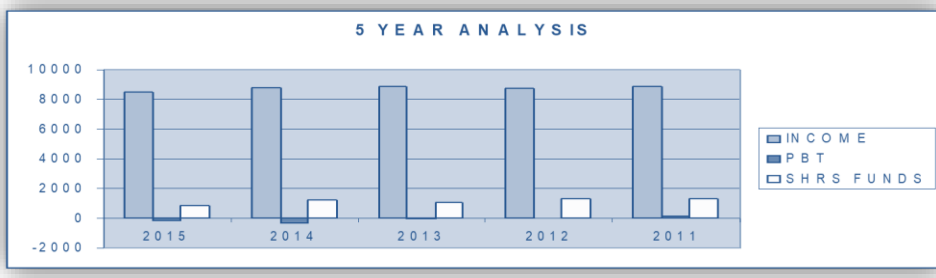
"Over the following 24 months, I am confident we can reach industry-standard margins and then build on the foundations. *Build to Last* has been put in place to deliver a Balfour Beatty with market-leading strengths and performance over the longer term," Quinn says.

Give Quinn his due, he's the new man on the block with a good reputation and a job to do. But Howson had broken the trend in 2014, and the industry was poised for some stonking movements. "Leadership" is about much more than convincing shareholders and Analysts the worth of 7 figure salaries. Leaders need to consider the big issues of how the business will succeed, however personally unpalatable.

5 YEAR ANALYSIS

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Income					
Revenue including share of joint ventures and associates	**8,444**	8,793	8,852	8,681	8,842
Share of revenue of joint ventures and associates	**(1,489)**	(1,529)	(1,364)	(1,301)	(1,420)
Group revenue from continuing operations	**6,955**	7,264	7,488	7,380	7,422
Underlying (loss)/profit from continuing operations	**(106)**	(58)	146	188	212
Underlying net finance costs	**(17)**	(22)	(15)	(6)	(14)
Underlying (loss)/profit before taxation	**(123)**	(80)	131	182	198
Amortisation of acquired intangible assets	**(10)**	(11)	(17)	(20)	(27)
Other non-underlying items	**(66)**	(213)	(163)	(159)	(21)
(Loss)/profit from continuing operations before taxation	**(199)**	(304)	(49)	3	150
Taxation on (loss)/profit from continuing operations	**(7)**	3	(4)	(6)	(30)
(Loss)/profit from continuing operations after taxation	**(206)**	(301)	(53)	(3)	120
Profit from discontinued operations after taxation	**–**	242	18	38	53
(Loss)/profit for the year attributable to equity holders	**(206)**	(59)	(35)	35	173
Capital employed					
Equity holders' funds	**826**	1,227	1,033	1,310	1,259
Liability component of preference shares	**98**	96	94	92	91
Net non-recourse borrowings – infrastructure concessions	**365**	445	354	368	332
Net (cash)/borrowings – other	**(163)**	(219)	66	(35)	(340)
	1,126	1,549	1,547	1,735	1,342

Source: Annual Report



Leo Quinn's Rescue Plan- Phase One

Business Summary

Balfour Beatty

Provides infrastructure services

Balfour Beatty Plc is an infrastructure services company, which operates across the infrastructure lifecycle in major markets.

It offers a broad range of capabilities in construction, civil engineering and mechanical & electrical engineering services.

The company operates its business through following segments: Construction Services, Support Services and Infrastructure Investments.

The Construction Services segment provides physical construction of an asset.

The Support Services segment engages in the support existing assets or functions such as asset maintenance and refurbishment.

The Infrastructure Investments segment involves in acquisition, operation and disposal of infrastructure assets such as PPP concessions, student accommodation and airports.

The company was founded by George Balfour and Andrew Beatty on January 12, 1909 and is headquartered in London, the United Kingdom.

Number of employees : 23 123 persons.

Sales per Businesses

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
Construction Services	5,429	75.2%	5,220	77.4%	-3.85%
Support Services	1,247	17.3%	1,234	18.3%	-1.04%
Infrastructure Investments	274.00	3.8%	310.00	4.6%	+13.14%
Rail Germany	252.00	3.5%	161.00	2.4%	-36.11%
Certain Legacy ES Contracts	62.00	0.9%	30.00	0.4%	-51.61%

Sales per Regions

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
United Kingdom	3,942	54.6%	3,658	54.2%	-7.2%
United States	2,943	40.8%	3,068	45.5%	+4.25%
Rest of World	379.00	5.3%	229.00	3.4%	-39.58%

Source: 4 Traders.com

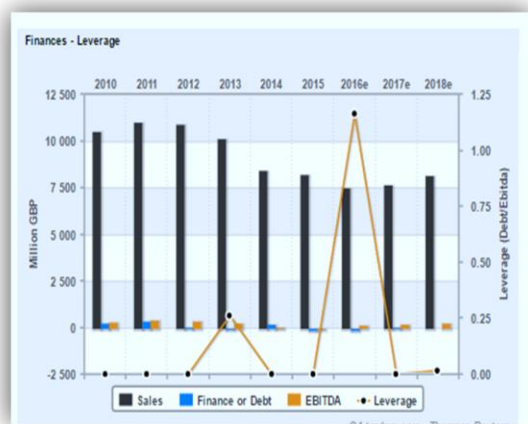
Financial Ratios

Size	2016e	2017e
Capitalization	1 903 M GBP	-
Entreprise Value (EV)	2 057 M GBP	1 849 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	62,1x	20,2x
Capitalization / Revenue	0,25x	0,25x
EV / Revenue	0,27x	0,24x
EV / EBITDA	15,5x	9,96x
Yield (DPS / Price)	1,02%	1,49%
Price to book (Price / BVPS)	2,24x	2,08x

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	0,88%	1,68%
operating Leverage (Delta EBIT / Delta Sales)	-	44,5x
Net Margin (Net Profit / Revenue)	0,49%	1,45%
ROA (Net Profit / Asset)	1,60%	2,50%
ROE (Net Profit / Equities)	9,59%	14,9%
Rate of Dividend	63,1%	30,2%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	0,85%	0,86%
Cash Flow / Sales	-1,12%	-0,15%
Capital Intensity (Assets / Sales)	0,30x	0,58x
Financial Leverage (Net Debt / EBITDA)	1,16x	-0,29x



Balfour Beatty's main business segment is Construction, 78% of sales. By increasing bid margin thresholds and the business focus on jobs to which the Group can deliver value the quality of the order book has been improved.

"Balfour Beatty needs to proactively get successfully acquired or merged, asap. That way it can easily achieve synergistic savings, and provide a compelling investment case for shareholders regarding the future direction and success of the company. While it is focusing on retrenchment and consolidation in its core contracting businesses, it does not have the luxury to do what it needs to do for the longer term, which is to put in place a strategy, and the financing, for future diversification outside contracting."

BALFOUR BEATTY DIVISIONAL ANALYSIS

Prior to the sale of PB, The Group obtains more than 50% of its total revenue from international markets, operating in around 80 different countries, in various economies and markets.

Balfour Beatty's main shareholders are UK institutional investors each holding more than 4% of the Company's shares: Causeway Capital Management LLC. (8.08%), Prudential Plc. (5.81%), Newton Investment Management Limited (4.54%) and Invesco Limited (4.21%). Balfour Beatty's activity is divided into three business lines: Construction Services, Support Services and Infrastructure Investments.

Construction Services
The Construction business in the UK and the US and joint ventures in the Middle East and South East Asia operate across the infrastructure and building sectors. Construction Services include civil and ground engineering, rail engineering, building, refurbishment and fit-out and mechanical and electrical services. The Construction business continues to be very selective as the Group seeks to increase bid margin thresholds, improve risk frameworks and achieve better contract governance.

In 2015 the division's total sales remained in line with the previous year, reaching GBP 6,388 million. Revenue in the UK fell by 14% due to lower levels of order intake in the previous year and the fact that improved bidding disciplines resulted in lower levels of contracts awarded in previous problem areas. This was partially offset by a revenue increase of 3% in the US and a 16% increase in Hong Kong.

The Construction Services order book was stable and remained at the same level as in 2014. The strong growth in the US and the Middle East was offset by the decline in the UK.

Support Services
The Support Services division manages, upgrades and maintains critical national infrastructure, and its capabilities complement both Group Construction Services and Infrastructure Investments divisions. The Group's Support Services include facility management and business services outsourcing, the upgrade and maintenance of water, gas and electricity networks, highway network management, operation and maintenance and rail renewals.

Support Services revenue amounted to GBP 1,259 million, close to the 2014 level, as growth in utilities was offset by a decline in transport. On the other hand, the order book value decreased by 11% mainly because of the long term contracts that the business is currently executing and also due
to the decision to exit a poorly-performing local public contract.

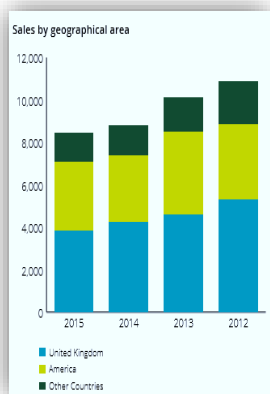
Infrastructure Investments
This segment operates a portfolio of long term PPP concessions, primarily education, health and roads/street lighting activities. The Group has also established a presence in data centres in Canada. In the last few years Balfour Beatty Investments has extended to new markets and geographies. The portfolio is composed of 70% PPP projects and 30% non-PPP projects, which demonstrates the degree of success of the business in recent years.

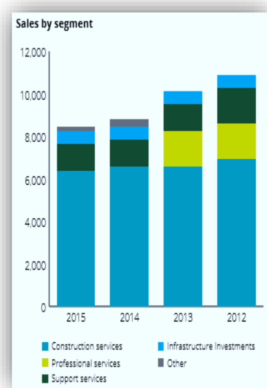
The Investments business delivered another successful year of growth in profits and continued to see significant opportunities for future investment in the sector, as well as third-party management opportunities.

2015 Performance

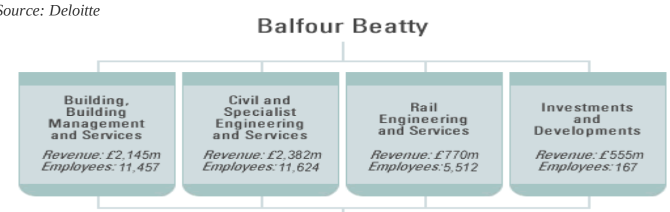
Total Group sales decreased by 3% compared to 2014, amounting to GBP 8,444 million. The main business segment is construction, representing 78% of total sales. Total net losses attributable to the Group amounted to GBP 206 million mainly explained by the performance of the construction services division in the UK, US and Middle East. The Group's order book declined by 4% in 2015, amounting to GBP 11,000 million. However, the increase in the bid margin thresholds and the business focus on jobs to which the Group can deliver value has improved the quality of this order book.

Key Data (GBP Million)	2015	2014	2013
Assets			
Non-current assets	2,522	2,745	2,911
Current assets	2,079	2,439	2,570
Assets held for sale	-	60	231
Total assets	4,601	5,244	5,712
Liabilities and equity			
Equity	830	1,230	1,035
Non-current liabilities	1,407	1,501	1,721
Current liabilities	2,364	2,466	2,737
Liabilities held for sale	-	47	219
Total liabilities and equity	4,601	5,244	5,712
Statement of profit or loss			
Sales	8,444	8,793	10,118
National sales	3,843	4,209	4,607
International sales	4,601	4,584	5,511
Construction sales	6,388	6,597	6,573
Non-construction sales	2,056	2,196	3,545
EBITDA	(192)	(270)	92
EBIT	(182)	(281)	48
Net income	(206)	(59)	(35)
Net income attributable to the Group	(206)	(60)	(41)
Other key data			
Net debt	202	226	420
Order book	11,000	11,400	13,355
Market capitalisation	1,864	1,463	1,977





Source: Deloitte



CARILLION

Company Profile

Carillion plc is an integrated support services company. The Company has a portfolio of Public Private Partnership projects and construction capabilities. It operates through four business segments: Support services, Public Private Partnership projects, Middle East construction services and Construction services. The Support Services segment includes its facilities management, facilities services, energy services, rail services, utility services, road maintenance and consultancy businesses. The Public Private Partnership projects segment includes the financial returns generated by investments it makes in Public Private Partnership (PPP) projects, including those from the sale of equity investments. The Middle East construction services segment includes its building and civil engineering activities in Middle East and North Africa. The Construction services segment includes its United Kingdom building, civil engineering, developments businesses and its construction activities in Canada.

M & A History

Carillion was created in July 1999, by a demerger from Tarmac, which was founded in 1903; the new company included the former Tarmac Construction contracting business and Tarmac Professional Services.

In September 2001, Carillion acquired the 51% of GT Rail Maintenance it did not already own, thereby creating Carillion Rail. In August 2002, Carillion bought Citex Management Services for £11.5 million and, in March 2005, it acquired Planned Maintenance Group for circa £40 million.

In February 2006, Carillion went on to acquire Mowlem, another United Kingdom support services firm, for circa £350 million and in February 2008, it acquired Alfred McAlpine, another United Kingdom support services firm, for £572 million. Then, in October 2008, Carillion bought Van Bots Construction in Canada for £14.3 million.

In April 2011, Carillion bought Eaga, an energy efficiency business, for £306 million and in December 2012, it acquired a 49 per cent interest in The Bouchier Group, a company providing services in the Athabasca oil sands area, for £24m. Then, in October 2013, the company bought the facilities management business of John Laing.

In December 2014, Carillion acquired a 60% stake in Rokstad Power Corporation, a Canadian transmission and distribution business, for £33 million. Carillion acquired 100% of the Outland Group, a specialist supplier of camps and catering at remote locations in Canada, in May 2015 and a majority stake in Ask Real Estate, a Manchester-based developer, in January 2016.

Maybe, the company's biggest failed bid was in August 2014, when the company spent several weeks attempting a merger with rival Balfour Beatty. Three offers were made; the last bid, which valued Balfour Beatty at £2.1 billion, was unanimously rejected by the Balfour Beatty board on 19 August 2014.

Market Capitalisation

Market Capitalisation:	£1,068,310 million
Shares In Issue:	430.25 million

Source: Citywire 11/10/2016

Consensus Analysts Recommendation

As of Oct 07, 2016, the consensus forecast amongst 11 polled investment analysts covering Carillion plc advises investors to hold their position in the company. This has been the consensus forecast since the sentiment of investment analysts deteriorated on Jun 29, 2016. The previous consensus forecast advised that Carillion plc would outperform the market. For a critical Analysts view of Carillion performance please refer to Appendix X.

Source: Market.ft.com

Chief Executive

Richard Howson

"Fortune favours the Brave."

An Overview

Analysts should not underestimate Richard Howson, nor Carillion. He was bold enough to bid for the Bigger Rival Balfour Beatty, and supported the strategy of UK Consolidation in so doing. He is a forward thinker and not tied to the past . Earned his spurs in the Middle East and with plans to build a £1bn Revenue Businesses there and also in Canada, these Regions will remain the key focus of Geographical Diversity. With the newly appointed CFO a Native of the UAE also, it is speculated that a new Anglo-Arab focus will emerge at Carillion in its Global Growth strategy, despite oil prices. Carillion's market presence in the Region will increase, and while Oil Prices stay low -PPPs and UKEF alternative forms of funding are attractive.

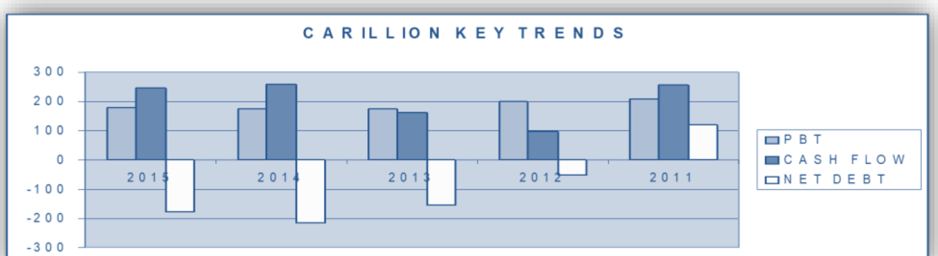
Carillion's short term problems revolve around its pension Deficit and Debt levels, and its deteriorated Share Price, not helped by Short-Sellers.

5 Year Analysis (PTO

Group income statement	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Total revenue	4,586.9	4,071.9	4,080.9	4,402.8	5,051.2
Analysed between:					
Support services	2,534.2	2,323.9	2,300.9	2,359.7	2,345.2
Public Private Partnership projects	192.8	162.5	236.9	287.7	309.8
Middle East construction services	601.6	500.7	483.5	473.6	548.9
Construction services (excluding the Middle East)	1,258.3	1,084.8	1,059.6	1,281.8	1,847.3
Underlying Group and joint ventures' operating profit before intangible amortisation, arising from business combinations, non-recurring operating items and joint ventures' net financial expense and taxation	244.4	226.0	228.8	245.6	245.4
Analysed between:					
Support services	146.6	135.9	118.0	120.9	119.0
Public Private Partnership projects	49.3	34.5	58.4	33.8	31.4
Middle East construction services	25.3	25.1	19.2	29.0	49.1
Construction services (excluding the Middle East)	37.8	41.5	44.4	72.4	57.9
Group eliminations and unallocated items	(14.6)	(11.0)	(11.2)	(10.5)	(12.0)
Share of joint ventures' net financial expense	(7.1)	(6.4)	(10.1)	(16.0)	(18.8)
Share of joint ventures' taxation	(2.9)	(2.7)	(4.4)	(1.7)	(3.5)
Underlying profit from operations before intangible amortisation arising from business combinations and non-recurring operating items	234.4	216.9	214.3	227.9	223.1
Underlying Group net financial expense	(57.9)	(44.0)	(39.6)	(27.9)	(18.6)
Underlying profit before tax	176.5	172.9	174.7	200.0	204.5
Intangible amortisation arising from business combinations	(20.0)	(16.8)	(19.2)	(31.4)	(31.0)
Non-recurring operating items	(5.0)	-	(44.2)	(2.6)	(42.8)
Non-operating items	(2.5)	(9.9)	(0.7)	(1.2)	(6.9)
Fair value movements in derivative financial instruments	6.1	(3.6)	-	-	-
Profit before taxation	155.1	142.6	110.6	164.8	123.8
Taxation	(15.7)	(15.1)	(4.3)	(9.9)	-
Profit for the year	139.4	127.5	106.3	154.9	123.8

Group balance sheet	2015 £m	2014[(1)] £m	2013 £m	2012 £m	2011 £m
Property, plant and equipment	140.8	141.9	128.2	125.8	134.2
Intangible assets	1,633.9	1,614.1	1,552.8	1,536.6	1,547.6
Investments	166.1	139.9	159.3	237.9	210.9
	1,940.8	1,895.9	1,840.3	1,900.3	1,892.7
Inventories, receivables and payables	(379.0)	(355.3)	(327.6)	(456.7)	(607.4)
Net retirement benefit liability (net of deferred tax)	(317.6)	(406.2)	(295.1)	(269.9)	(229.3)
Other net liabilities	(57.1)	(62.6)	(18.8)	(7.2)	(22.8)
Net operating assets	1,187.1	1,071.8	1,198.8	1,166.5	1,033.2
Net borrowing	(169.8)	(177.3)	(215.2)	(155.8)	(50.7)
Net assets	1,017.3	894.5	983.6	1,010.7	982.5
Group cash flow statement					
Underlying Group operating profit	208.4	191.8	187.8	193.6	174.4
Depreciation and other non-cash items	10.7	26.6	21.3	26.9	36.4
Working capital	9.0	31.1	(66.4)	(136.2)	5.1
Dividends received from joint ventures	16.8	9.1	18.2	13.6	39.6
Underlying cash flow from operations	244.9	258.6	160.9	97.9	255.5
Pension deficit contributions	(47.4)	(46.0)	(39.2)	(30.2)	(36.2)
Rationalisation costs	(6.3)	(11.5)	(22.0)	(28.6)	(34.4)
Interest and taxation	(40.4)	(31.0)	(15.2)	(8.6)	(9.1)
Net capital (expenditure)/income	(12.8)	(22.4)	(27.2)	(15.6)	4.6
Other	(10.9)	1.4	(12.4)	(8.8)	(6.7)
	127.1	149.1	44.9	6.1	173.7
Acquisitions and disposals	(39.6)	(34.5)	(28.6)	(32.6)	(276.6)
Dividends	(80.0)	(76.7)	(75.7)	(78.6)	(68.0)
Change in net liquidity	7.5	37.9	(59.4)	(105.1)	(170.9)
Net (borrowing)/cash at 1 January	(177.3)	(215.2)	(155.8)	(50.7)	120.2
Net borrowing at 31 December	(169.8)	(177.3)	(215.2)	(155.8)	(50.7)

Source: Annual Report



Business Summary

Provides services for buildings, infrastructure, construction and engineering sectors

Carillion Plc provides services for buildings, infrastructure, construction and engineering sectors.

The company operates through four segments: Support Services, Middle East Construction Services, Construction services (excluding the Middle East) and Public Private Partnership Projects.

The Support Services segment is engaged in the facilities management, facilities services, rail services, road maintenance, utility services and consultancy businesses.

The Middle East Construction Services segment engages in the business of building and civil engineering activities in the Middle East and North Africa.

The Public Private Partnership Projects reports equity returns from its investments in public private partnership projects.

The Construction Services segment engages in the UK building, civil engineering and developments businesses, as well as construction activities in Canada.

The company offers services for commercial property, defence, education, health, rail, regeneration, highway maintenance, FM, civil engineering, international, nuclear, secure, fleet management and utility services.

Carillion was founded on July 29, 1999 and is headquartered in Wolverhampton, the United Kingdom.

Number of employees : 32 055 persons.

Sales per Businesses

	2014		2015		Delta
	GBP (in Million)	%	GBP (in Million)	%	
Support Services	2,100	60.1%	2,342	59.3%	+11.56%
Construction Services (Excluding the Middle East)	1,069	30.6%	1,248	31.6%	+16.72%
Middle East Construction Services	323.40	9.3%	358.90	9.1%	+10.98%
Public Private Partnership Projects	1.50	0%	1.30	0%	-13.33%

Sales per Regions

	2014		2015		Delta
	GBP (in Million)	%	GBP (in Million)	%	
United Kingdom	2,632	75.3%	3,004	76%	+14.12%
Canada	469.90	13.4%	473.80	12%	+0.83%
Middle East & North Africa	379.10	10.9%	451.10	11.4%	+18.99%
Rest of the World	12.70	0.4%	22.00	0.6%	+73.23%

Source: 4Traders.com

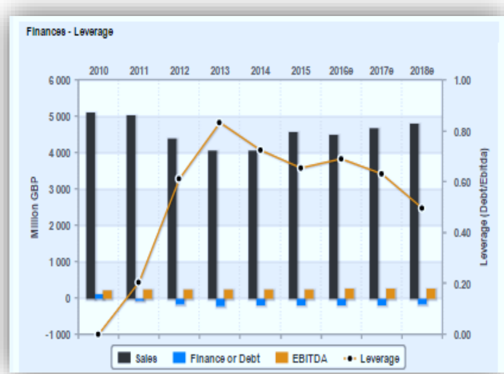
Financial Ratios

Size	2016e	2017e
Capitalization	1 078 M GBP	-
Entreprise Value (EV)	1 296 M GBP	1 253 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	7,56x	7,25x
Capitalization / Revenue	0,24x	0,23x
EV / Revenue	0,28x	0,27x
EV / EBITDA	4,65x	4,52x
Yield (DPS / Price)	7,52%	7,76%
Price to book (Price / BVPS)	1,03x	0,97x

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	5,24%	5,11%
operating Leverage (Delta EBIT / Delta Sales)	-	0,40x
Net Margin (Net Profit / Revenue)	3,08%	3,06%
ROA (Net Profit / Asset)	3,80%	3,90%
ROE (Net Profit / Equities)	14,7%	14,4%
Rate of Dividend	56,9%	56,3%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	0,66%	0,63%
Cash Flow / Sales	1,49%	1,69%
Capital Intensity (Assets / Sales)	0,81x	0,79x
Financial Leverage (Net Debt / EBITDA)	0,69x	0,63x



***"Carillion**: There are compelling reasons why Carillion should find a large Merger Partner. But focusing just on Balfour Beatty's woes since the failed merger in 2014 does not do justice to both sides of the argument. Two years since the failed buy, Carillion's margins have declined at the operating level. Net borrowing is higher than expected and a weak pound hurts, as Carillion's private placement borrowing is denominated in US dollars."*

Its final salary pension scheme is proving to be a big problem too behind the scenes. At the end of 2015, the liabilities of the scheme were £406 million more than the value of the assets in it. This deficit equates to 37.7% of Carillion's current market capitalisation of £1,078 million, which is the biggest deficit on this measure in the FTSE 350 index.

It is speculated that Richard Howson and Leo Quinn might eventually lock themselves in a room to battle out a deal before the Chinese move in, just like Joe Dwyer (CEO Wimpey) and Neville Simms (Tarmac) did in 1996. The combined Car-BB Group would we more diversified geographically and have c.£700m revenues in Middle East, and over £3bn in the Americas.

CARILLION DIVISIONAL ANALYSIS

Carillion is one of the UK's leading integrated support service companies, with extensive construction capabilities, a substantial portfolio of Public-Private Partnership projects and a sector-leading ability to deliver sustainable solutions. It was created as a result of the stock split of Tarmac Plc in 1999. The Tarmac Group demerged into a building materials company ("Tarmac") and a company focused on support and construction services ("Carillion"). Nowadays, Carillion Plc. employs more than 46,000 people worldwide, across established businesses in the UK, the Middle East, North Africa and Canada.

At March 2016, Standard Life Investment and BackRock Inc were the only investors with an ownership interest of over 7% (9.87% and 7.2%, respectively). There are four additional institutional shareholders with ownerships interests ranging from 4% to 6%.

In 2015 total Group revenue rose by 12.7% to GBP 4,587 million (2014: GBP 4,072 million). This growth was achieved across all business segments. Geographically, 73% of total sales, or GBP 3,335 million, were made within the United Kingdom. Local and Middle East and North African revenues increased by 13% and 25%, respectively, compared to 2014.
Carillion's portfolio includes Construction works (which is subdivided into Middle East and the rest of the world), Support Services and Public Private Partnership projects.

Support Services
Carillion offers a fully-integrated range of skills and capabilities that include property and facilities services, infrastructure services and energy services in the UK, Canada and the Middle East, particularly for large property estates and transport and utility networks. The Group includes various activities in this segment, most notably facilities management, facilities services, rail services, road maintenance, utility services and consultancy businesses. These services represent 55% of the total sales achieved by the Company in 2015.

In 2015 the division's sales rose by 9% to a record level of GBP 2,534 million. Other than the organic growth of this segment of activity, the positive performance was also a result of the acquisition of two projects in Canada: the Outland Group, a leading provider of remote site accommodation and services, and the Rokstad Corporation, an important provider of services in the overhead power transmission and distribution sector. Underlying operating profits of the Support division increased by 8% in comparison with 2014, amounting to GBP 146.6 million.

In 2015 Carillion was awarded two contracts by the UK National Offender Management Service, to provide facilities management services within public sector prisons. These two projects are worth approximately GBP 2,000.

Middle East Construction Services
In this segment the Group reports the results of its building and civil engineering activities in the Middle East and North Africa. Carillion has around 50 years' experience in the Middle East and has delivered some of the region's most prestigious buildings and infrastructure projects. These works bring together skills and resources that very few construction companies can match. The most iconic projects for the Group are Dubai Festival City, the Grand Mosque in Oman, the Yas Hotel (the centrepiece of Abu Dhabi's Formula 1 Grand Prix Circuit) and the Royal Opera House in Oman.

In 2015 the division's total sales amounted to GBP 601.6 million (2014: GBP 500.7 million), representing a revenue increase of 20.2%. Underlying operating profit amounted to GBP 25.3 million, a 1% increase on 2014. In 2015 the Group won a number of substantial new contracts: in Dubai, it won a contract to build Phases 1A5 and 1 of the Dubai Trade Centre District; in Oman, it won a major contract from BP to build accommodation and other facilities at BP's Khazzan Gas Project.

Construction Services (excluding Middle East)
This segment reports the results of UK building, civil engineering and development businesses, together with those of the construction activities performed in Canada. These activities comprise 27% of the Company's total revenue. Total sales increased to GBP 1,258.3 million as a result of the strong performance in winning works contracts, particularly in 2014, when the company won a significant number of high-quality contracts. Despite the positive results of revenue achieved, operating profit decreased to GBP 37.8 million (2014: GBP 41.5 million), as a result of the reduction in the operating margin to 3.0 basis points.

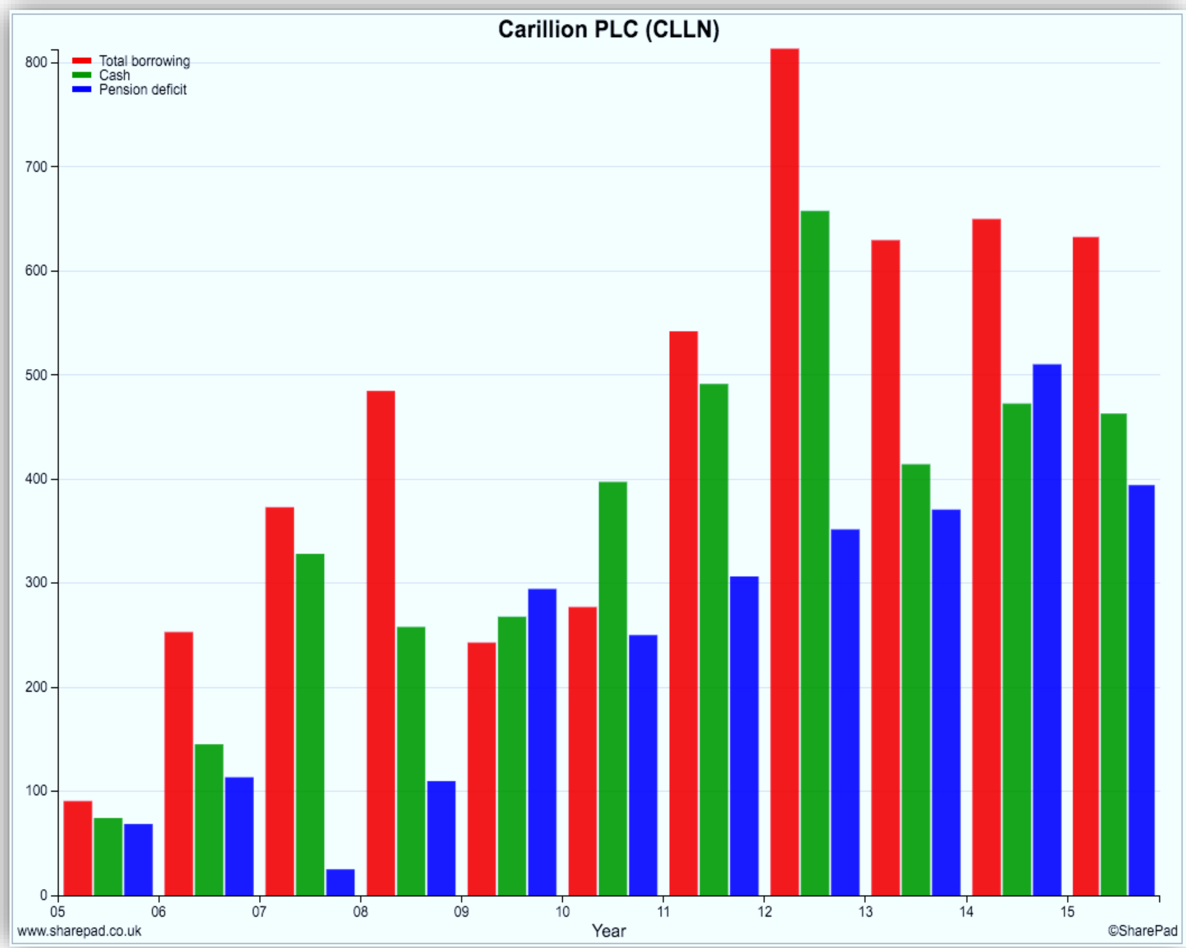
Public Private Partnership Projects
The Group is a benchmark in Public Private Partnership (PPP) projects, both in the UK and Canada. This business uses private sector finance to deliver a wide range of asset-based services for central and local government for hospitals, schools, prisons, military accommodation, roads and railways.

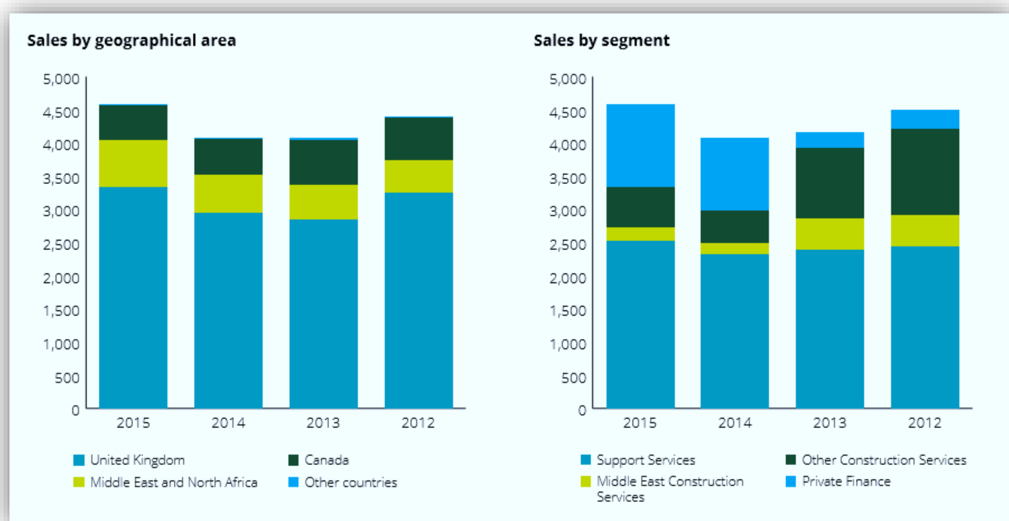
Revenue in 2015 amounted to GBP 192.8 million, largely reflecting the construction progress on new projects won in 2014 and 2015. Net attributable income grew to GBP 133 million in 2015 (an increase of 10% with respect to 2014), thanks to the overall growth of underlying profit from operations, which was 8% higher than in 2014.

2015 Performance
In 2015 total Group revenue rose by 12.7% to GBP 4,587 million (2014: GBP 4,072 million). This growth was achieved across all business segments. Geographically, 73% of total sales, or GBP 3,335 million, were made within the United Kingdom. Local and Middle East and North African revenues increased by 13% and 25%, respectively, compared to 2014.

Key Data (GBP Million)	2015	2014	2013
Assets			
Non-current assets	2,057	2,040	1,957
Current assets	1,813	1,850	1,683
Total assets	3,870	3,890	3,640
Liabilities and equity			
Equity	1,017	895	984
Non-current liabilities	1,082	1,194	995
Current liabilities	1,771	1,802	1,662
Total liabilities and equity	3,870	3,890	3,640
Statement of profit or loss			
Sales	4,587	4,072	4,081
National sales	3,335	2,941	2,845
International sales	1,252	1,131	1,236
Construction sales	1,860	1,586	1,545
Non construction sales	2,727	2,486	2,536
EBITDA	208	220	169
EBIT	209	200	151
Net income	139	128	106
Net income attributable to the Group	133	121	100
Other key data			
Net debt	170	177	215
Order book	17,400	18,600	18,000
Market capitalisation	1,303	1,445	1,422

Source: Deloitte





Source: Company Presentation

KIER

Company Profile

The Kier Group, which was incorporated in the United Kingdom in 1992, is a leading property, residential, construction and services Group that operates mainly in the local UK market, although it has recently expanded into areas in other continents, including the Middle East, Hong Kong, Australia and the Caribbean. Kier currently employs over 24,000 people and delivers services that vary throughout a wide range of sectors, including defence, education, health, housing, the industrial sector, power, property, transport and utilities.

M & A History

The Company was founded by Jorgen Lotz and Olaf Kier, Danish engineers, under the name *Lotz & Kier* in 1928.

J.L. Kier & Co Ltd remained a private company until 1963 when it obtained a listing on the London Stock Exchange and became a public company. Its offer for shares was many times oversubscribed. The Kier family retained a significant majority of the holding.

In 1973 Kier merged with W. & C. French to form French Kier but within the French division there were heavy losses on fixed-price motorway contracts and land development. A long-serving Kier engineer, John Mott, was appointed chief executive in order to revive the group's fortunes. Following an abortive bid for Abbey in 1985, French Kier itself was the subject of a hotly contested bid by Beazer, which eventually succeeded in January 1986.

Five years later (1991) Hanson plc bought Beazer plc and made an early decision to dispose of the Beazer contracting arm. The contracting business was disposed of the following year via a management buyout, in which Hanson retained ten per-cent of the equity. The MBO team re-couped a lot of the contested payments from overseas clients, and paid off the debt owed to Hanson. In 1993 Kier decided to re-enter the housing market with the £30m acquisition of Twigden Homes. This was followed by the southern division of Miller Homes in 1996; Bellwinch in 1998 and Allison Homes in 2001. By 2004, Kier housing sales were over 1,000 units a year.

A listing on the London Stock Exchange was obtained in 1996.

In 2009, Mivan Kier, Kier's Romanian joint venture with the Northern Irish group Mivan, which invested in real estate projects in Bucharest, requested bankruptcy protection due to debts of €20 million.

In 2013, Kier acquired the services firm May Gurney for £221 million.

In June 2015 Kier completed its acquisition of Mouchel, a business which included both an infrastructure services division and a business services division, for £265m. Later in 2016 Kier sold the remains of non-integrated Mouchel business to WSP for £75m.

Market Capitalisation

Market Capitalisation:	£1,156.05 million
Shares In Issue:	96.34 million

Source: Citywire 11/10/2016

Consensus Analysts Recommendation

As of Oct 14, 2016, the consensus forecast amongst 7 polled investment analysts covering Kier Group plc advises investors to purchase equity in the company. This has been the consensus forecast since the sentiment of investment analysts improved on Nov 27, 2015. The previous consensus forecast advised that Kier Group plc would outperform the market. It seems the exceptional losses of 2016 have not affected sentiment.

Source: Market.ft.com

Chief Executive

"In recent years, since Dodd's departure as CEO, Kier seem to have cast old MBO conservatism about Acquisitions to the wind."

An Overview

It is not known whether the departure of both Paul Sheffield (ex-CEO, and now Board Director and maybe future CEO elect at Laing O'Rourke) and Steve Bowcott (ex-Executive Director Construction) relate in any way to the Waste Contract Environmental Liabilities/ irregularities not discovered during due diligence in the May Guerney Acquisition. Together with the bold acquisition of Mouchel, Kier transformed itself into an M&A player, perhaps not with total financial success yet. But the £116m of extraordinary costs, including the un-related closure of the Caribbean business, have been taken on the chin. Internationally Kier have also been hit by MTR project losses in Hong Kong. Kier fortunately for them has 96% of their sales within the UK, and operating margins remain strong, backed particularly by Property and Residential

"The fundamentals remain strong at Kier (2015/16 Operating Cash Flow was £170m despite the problems noted above). They are also one of the few Contractors which maintained Property and Housing Arms. With the indigestion from swallowing May Guerney and the sale of the rump of Mouchel behind them, and operationally more diverse, particularly in highways for having done so, maybe Kier should look at a Merger rather than Acquisition for its future growth strategy, outside core UK Infrastructure, Regional Building, and Maintenance and Support Services."

Year ended 30 June	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue: Group and share of joint ventures	**4,210.6**	3,351.2	2,937.8	1,958.3	2,039.0
Less share of joint ventures	**(98.3)**	(75.3)	(30.9)	(39.8)	(38.7)
Group revenue	**4,112.3**	3,275.9	2,906.9	1,918.5	2,000.3
Profit					
Group operating profit[1]	**132.8**	81.0	79.6	41.9	52.8
Share of post-tax results of joint ventures	**14.2**	7.9	1.6	0.9	1.3
Profit on disposal of joint ventures	**2.6**	14.8	6.1	9.8	6.7
Underlying operating profit[1]	**149.6**	103.7	87.3	52.6	60.8
Underlying net finance costs[1]	**(24.7)**	(17.8)	(13.6)	(6.7)	(2.5)
Underlying profit before tax[1]	**124.9**	85.9	73.7	45.9	58.3
Amortisation of intangible assets relating to contract rights	**(21.5)**	(11.2)	(10.8)	(3.4)	(3.4)
Non-underlying finance costs	**(2.4)**	(3.6)	(5.3)	(1.3)	(2.3)
Other non-underlying items	**(116.4)**	(31.6)	(42.2)	(17.0)	(3.6)
Profit before tax	**(15.4)**	39.5	15.4	24.2	49.0
Underlying basic earnings per share[1]	**106.7p**	96.0p	87.5p	78.9p	107.4p
Dividend per share	**64.5p**	55.2p	57.6p	54.3p	52.7p
At 30 June					
Shareholders' funds (£m)	**576.1**	585.4	309.7	158.3	154.2
Net assets per share	**600.0p**	615.2p	447.8p	317.5p	317.4p

Source: Annual Report

2016 EXCEPTIONALS

Kier recorded a £15m loss over the year 2015/16 after taking a £116m one-off hit from closing its Caribbean business, restructuring Mouchel and legacy May Gurney waste contracts

Kier exceptionals breakdown	
Mouchel integration and restructuring costs	£50m
Provision for Environmental Services recyclate costs and legacy contracts	£36m
Provision relating to Biogen investment	£5m
Closure of Caribbean operations and related contract final accounts	£23m
Construction Workers Compensation Scheme and related costs	£4.5m

See page 10 for more

See page 14 for more

Property

The Property division provides property development and structured project finance.

Residential

The Residential division, known as Kier Living, brings together all of Kier's house building operations from contracting and mixed tenure housing to private sector housing.

Construction

The Construction division comprises regional building, major projects, infrastructure and international operations.

Services

The Services division comprises highways maintenance, utilities, facilities management, housing maintenance, environmental and fleet & passenger services.

5 YEAR SUMMARY

Business Summary

Engages in the business of construction, services and property

KIER

Kier Group Plc is a property, residential, construction and services company which specializes in building and civil engineering, support services, residential and commercial property development and structured property financing, private and affordable housing.

It operates through the following segments: Property, Residential, Construction and Services.

The Property segment encompasses property development and structured finance.

The Residential segment includes private house building and affordable mixed tenure housing partnerships.

The comprises the UK building and civil engineering businesses and the international business.

The Services segment deals with the capabilities in highways maintenance, utilities, housing maintenance, facilities management and environmental services.

The company was founded in 1992 and is headquartered in Sandy, the United Kingdom.

Sales per Businesses

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
Construction	1,591	53.8%	1,713	52.3%	+7.68%
Services	1,104	37.4%	1,247	38.1%	+12.91%
Property	259.70	8.8%	59.40	1.8%	-77.13%
Residential	-	-	257.20	7.9%	-

Sales per Regions

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
United Kingdom	2,954	100%	3,276	100%	+10.89%

Financial Ratios

Size	2017e	2018e
Capitalization	1 308 M GBP	-
Entreprise Value (EV)	1 461 M GBP	1 465 M GBP

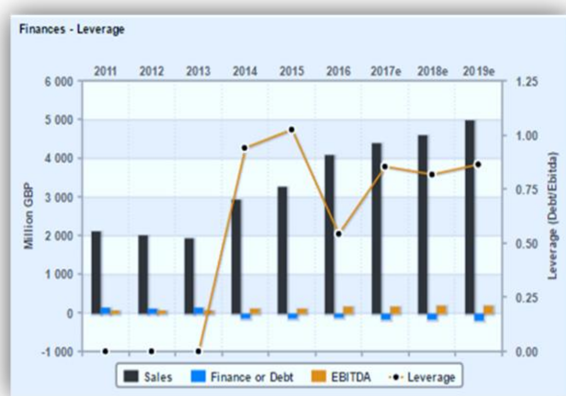
Valuation	2017e	2018e
P/E ratio (Price / EPS)	16,2x	14,0x
Capitalization / Revenue	0,30x	0,28x
EV / Revenue	0,33x	0,32x
EV / EBITDA	8,17x	7,62x
Yield (DPS / Price)	4,95%	5,26%
Price to book (Price / BVPS)	1,88x	1,78x

Profitability	2017e	2018e
Operating Margin (EBIT / Sales)	3,55%	3,69%
operating Leverage (Delta EBIT / Delta Sales)	2,45x	1,94x
Net Margin (Net Profit / Revenue)	1,78%	1,96%
ROA (Net Profit / Asset)	3,70%	3,60%
ROE (Net Profit / Equities)	17,3%	17,6%
Rate of Dividend	80,0%	73,5%

Balance Sheet Analysis	2017e	2018e
CAPEX / Sales	0,80%	0,67%
Cash Flow / Sales	1,82%	2,37%
Capital Intensity (Assets / Sales)	0,48x	0,55x
Financial Leverage (Net Debt / EBITDA)	0,85x	0,82x

Source: 4Traders.com

Kier has 96% of its sales within the UK, but operating margins remain strong overall, backed particularly by its smaller Property and Residential divisions. However, Kier recorded a £15m loss over the 2015/2016 year after taking a £116m one-off hit from closing its Caribbean business, restructuring Mouchel and provisions on legacy May Gurney waste contracts. Kier was never an advocate of taking M&A risk, probably due to its cautious cash management post MBO, but seems to have taken a new route with its May Guerney and Mouchel buys in fast succession. However the company's fundamentals remain strong. Kier is a diversified UK contracting, support services, and property/housing Group and together with Galliford is one of the only UK Main Contractors which maintained a Housing Arm, and maybe can be commended for having done so through economic cycles. Indigestion from swallowing May Guerney and the sale of the rump of Mouchel behind them, Kier could well be a candidate for future Merger and Acquisition activity, in its search for future growth, which should provide further diversification.



DIVISIONAL PERFORMANCE

Kier's activities are currently structured as follows:

Construction The Construction segment represents 51% of the Group's total revenue and is mainly focused on UK building and civil engineering projects, although it also includes international operations carried out by the Group, mostly in the Middle East. This division has a well-established, leading position in strategic frameworks, supported by its strong regional building position in the public and private sector together with its solid local supply chain partners. The infrastructure division is benefiting from greater local government investment.

Revenue generated within the Construction segment amounted to GBP 1,720.8 million at June 2015, 7.8% higher than in the previous year. Underlying operating profit also increased by 12%, from GBP 33.6 million in 2014 to GBP 37.7 million in 2015.

Within the UK building sector, Kier has developed its profile in the biotech sector by carrying out several construction projects at the University of Cambridge. It was also awarded the GBP 170 million first phase of The Ram Quarter, an important flagship regeneration scheme. Additional infrastructure projects include the Crossrail Farringdon station, which is expected to be completed in 2018, and the Deephams waste water treatment project for Thames Water.

Services The Services division encompasses capabilities in highway maintenance (both local authority and strategic highways), housing maintenance, utilities, facilities management and environmental services. The recently-acquired activities of Mouchel's consulting and local authority business processing operations, recently renamed Kier Business Services, are also included within this segment.

The Services division represents around 37% of the Group's total revenue, which amounted to GBP 1,247 million in 2015 (a 12.9% increase on 2014). The high level of sales obtained in this segment is due mainly to the award of a GBP 200 million, four-year highway services contract by Northamptonshire County Council and the maintenance works obtained as part of the AMP6 water cycle.

Property This division focuses on property development and structured finance. Kier operates across various sectors but focuses particularly on the industrial, commercial, retail and leisure sectors, as well as the public sector, in which demand has increased over recent years. The Group works with joint venture partners in order to develop property businesses, and participates in projects such as the retail and leisure development in Catterick and the Logistics City industrial space.

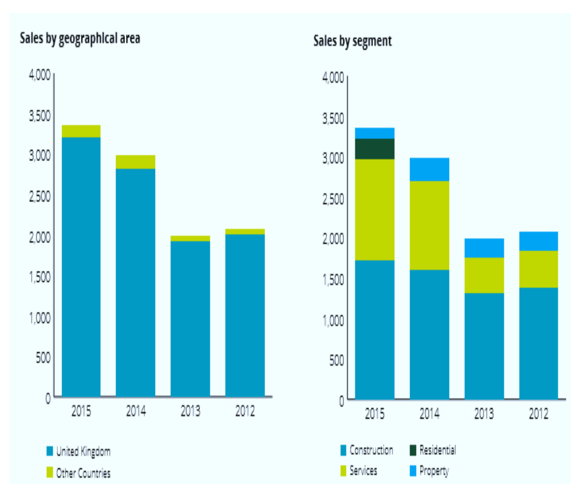
Residential The Group has restructured its business by creating the Residential division, which comprises elements that were previously included within the Property and Construction divisions. At June 2015, this segment accounted for 8% of total Group sales. Activities performed include private housebuilding as well as affordable mixed tenure housing partnerships. The client's portfolio involves local authorities, housing associations and the private rental sector.

2015 Performance The Group had achieved total revenue of GBP 3,351 million at June 2015, which represents a 12.3% increase on the previous year. Approximately 96% of total sales were made within the United Kingdom. As a result, profit from current operations improved by 17.8%, from GBP 88 million recorded in 2014 to GBP 104 million at June 2015. Overall, underlying operating margins remained strong; however, the best results were obtained within the property and residential divisions.

In June 2015 the Group performed a significant transaction by completing the acquisition of the international infrastructure and business services group Mouchel Consulting for a total of GBP 265 million. The acquisition benefited both companies by combining Mouchel's outstanding position in the strategic highways services market and Kier's presence in the local authority roads market. As a result, Kier will position itself as a sector leader in the growing UK market of highway management and maintenance, and this will allow the construction Group to expand its operations across its local border.

As a result of both the positive financial results achieved and the announcement of the transaction between Kier and Mouchel, Kier's market capitalisation index increased by 38%, amounting to GBP 1,354 million at June 2015. Kier's ultimate sale of the rump of Mouchel was not surprising, and maybe not too damaging, even though Kier surprised the market by having to provide substantially for non-underlying costs in 2015/16 associated with Mouchel integration, May Guerney Environmental losses, and closure of Kier Caribbean.

Key Data (GBP Million)	2015	2014	2013	Variation 2015-2014 %
Assets				
Non-current assets	1,020	582	222	75.1%
Current assets	1,721	1,250	911	37.7%
Total assets	2,741	1,832	1,133	49.6%
Liabilities and equity				
Equity	585	310	158	89%
Non-current liabilities	801	444	200	80.3%
Current liabilities	1,355	1,078	775	25.7%
Total liabilities and equity	2,741	1,832	1,133	49.6%
Statement of profit or loss				
Sales	3,351	2,985	1,983	12.3%
National sales	3,213	2,825	1,918	13.7%
International sales	138	160	65	(13.8%)
Construction sales	1,721	1,597	1,307	7.8%
Non-construction sales	1,630	1,388	676	17.4%
EBITDA	104	88	70	17.8%
EBIT	61	35	49	74%
Net income	6	11	39	(48.6%)
Net income attributable to the Group	4	10	38	(56%)
Other key data				
Net debt	141	123	(60)	14.6%
Order book	9,300	6,200	4,300	50%
Market capitalisation	1,354	981	456	38%



Source: Deloitte

Market Capitalisation: £311.69 million

Shares In Issue: 44.67 million

Company Profile

Morgan Sindall Group plc is a construction and regeneration company. The Company consists of six divisions, including Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments. Construction & Infrastructure division offers design, construction and infrastructure services working on projects of various sizes for markets, such as commercial, defense and water. Fit Out division specializes in fit out and refurbishment projects. Property Services includes maintenance activities offering facilities management and repairs to social housing providers and public buildings. Partnership Housing business specializes in delivery of mixed-tenure regeneration housing partnership schemes, design and build house contracting. Urban Regeneration division creates commercial, residential and public realm facilities. Investments division covers a range of markets, including healthcare and social care, student accommodation, and infrastructure.

M&A History

The Company was founded by John Morgan and Jack Lovell in 1977 and was initially based at Golden Square in Soho. The Company secured a listing on the London Stock Exchange in 1994 when it entered into a reverse takeover of William Sindall plc.

William Sindall was a very old established and hugely respected name in the construction industry. William Sindall was established in the 1860s and was renowned for his quality work for the University of Cambridge. In 1988 William Sindall had acquired Hinkins & Frewin, a company established in 1847 and with a similar reputation for work for the University of Oxford, to create a truly Oxbridge construction group.

In 1998, Morgan Sindall bought Lovell Partnerships for £15m from the financially stretched Lovell Group. The business was one of the largest partnership housing operations in the country, and it also contained a private housebuilding division.

In June 2007 Morgan Sindall Group purchased the Construction arm of AMEC. In late 2010, it purchased the repairs division of Connaught plc.

Financials

Year on year Morgan Sindall Group PLC had net income fall from a gain of 18.10m to a loss of 9.90m despite a 7.43% increase in revenues from 2.22bn to 2.38bn. An increase in the selling, general and administrative costs as a percentage of sales from 7.22% to 7.72% was a component in the falling net income despite rising revenues.

Overview

"The company may not be a lead player in the UK, but has its niche market strengths and some pros when it comes to being a potential M&A target :

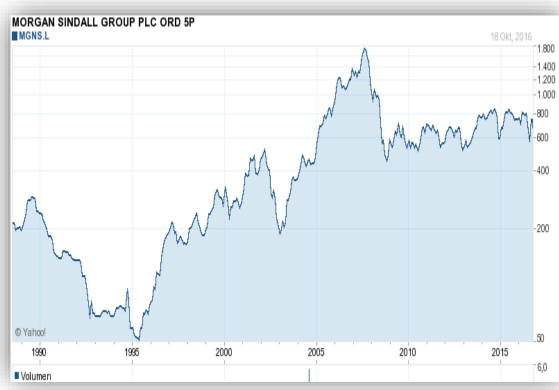
- ***no financial debt***
- ***management holds significant shares***
- ***no majority shareholder***
- ***constant and high ROE/ROE/ROIC***
- ***long established operating history***
- ***almost no pension liabilities***

It is recommended interested parties speak to the Company's founder and Chief Executive."

Chief Executive

John Morgan

Share Price Progress since 1990



Business Summary

Provides construction and infrastructure services

Morgan Sindall Group Plc provides construction and infrastructure services.

It operates through five business segments: Construction & Infrastructure, Fit Out, Affordable Housing, Urban Regeneration and Investments.

The Construction & Infrastructure segment offers design, construction and infrastructure services to private and public sector customers.

The Fit Out segment specializes in fit out and refurbishment projects in the commercial, central and local government office, further education, and retail banking markets.

The Affordable Housing segment specializes in the design and build, refurbishment, maintenance, regeneration and repair of homes and communities.

The Urban Regeneration segment works with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal through the delivery of mixed-use and residential-led projects.

The Investments segment realizes the potential of under-utilized property assets and promotes economic growth, primarily through strategic partnerships.

The company was founded on July 20, 1953 and is headquartered in London, the United Kingdom.

Number of employees : 5 828 persons.

Sales per Businesses

	2014		2015		Delta
	GBP (in Million)	%	GBP (in Million)	%	
Construction & Infrastructure	1,159	52.2%	1,231	51.6%	+6.17%
Fit Out	503.60	22.7%	606.20	25.4%	+20.37%
Affordable Housing	419.60	18.9%	424.50	17.8%	+1.17%
Urban Regeneration	112.70	5.1%	110.40	4.6%	-2.04%
Investments	24.90	1.1%	13.10	0.5%	-47.39%

Sales per Regions

	2014		2015		Delta
	GBP (in Million)	%	GBP (in Million)	%	
United Kingdom	2,220	100%	2,385	100%	+7.43%

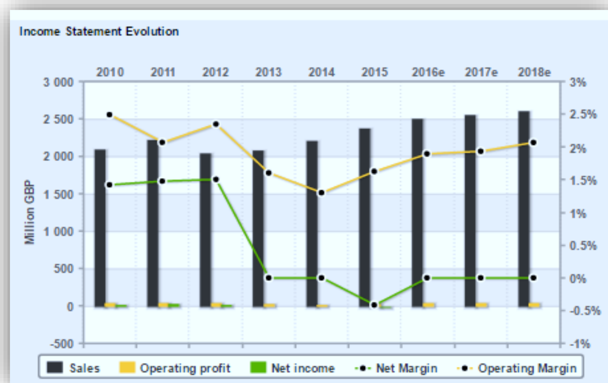
Financial Ratios

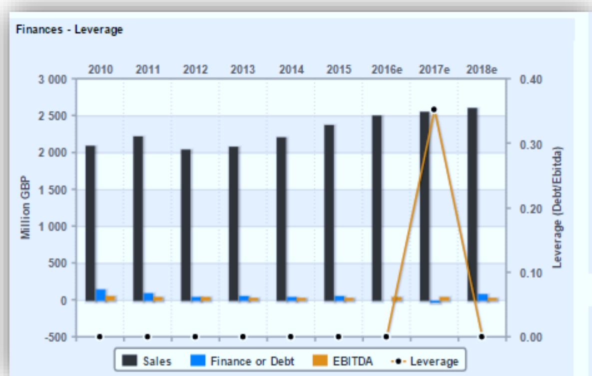
Size	2016e	2017e
Capitalization	318 M GBP	-
Entreprise Value (EV)	315 M GBP	337 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	9,94x	8,91x
Capitalization / Revenue	0,13x	0,12x
EV / Revenue	0,13x	0,13x
EV / EBITDA	5,83x	6,06x
Yield (DPS / Price)	4,55%	5,03%
Price to book (Price / BVPS)	-	-

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	1,90%	1,93%
operating Leverage (Delta EBIT / Delta Sales)	4,32x	2,04x
Net Margin (Net Profit / Revenue)	-	-
ROA (Net Profit / Asset)	-	-
ROE (Net Profit / Equities)	-	-
Rate of Dividend	45,3%	44,8%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	-	-
Cash Flow / Sales	0,98%	1,32%
Capital Intensity (Assets / Sales)	-	-
Financial Leverage (Net Debt / EBITDA)	-0,05x	0,35x





Source: 4-traders.com

Morgan Sindall's operating profit is predominantly derived from its fit-out & urban regeneration businesses but the Group currently is loss making, although it will continue to benefit from its strong operating margin in its fit-out business. A steady business, but maybe not a candidate to become a Top 5 industry leader in the immediate future

MORGAN SINDALL PROFIT IS PREDOMINANTLY DERIVED FROM ITS FIT-OUT & URBAN REGENERATION BUSINESSES

AND IS CURRENTLY LOSS MAKING IN TERMS OF NET PROFIT, ALTHOUGH HAS A STRONG OPERATING MARGIN IN ITS FIT-OUT BUSINESS

£m	Revenue		Operating Profit[1]		Operating Margin[1]	
	FY 2015	%	FY 2015	%	FY 2015	
Construction & Infrastructure	1,232	+5%	3.8	+9%	0.3%	-
Fit Out	607	+20%	24.0	+60%	4.0%	+100bps
Affordable Housing	426	+1%	8.6	+43%	2.0%	+60bps
Urban Regeneration	110	-3%	12.9	+29%	11.7%	n/a
Investments	13	n/a	(1.5)	n/a	-11.5%	n/a
Central/Elims	(3)		(9.0)			
Total	**2,385**	**+7%**	**38.8**	**+34%**	**1.6%**	**+30bps**

Source: Company Accounts & Presentations

2016 HALF-YEAR RESULTS

Summary income statement[1]

MORGAN SINDALL GROUP

£m	HY 2016	HY 2015	% change
Revenue	1,148	1,152	-
Operating profit[1] *Operating margin[1]*	18.2 *1.6%*	15.5 *1.3%*	+17% *+30bps*
Profit before tax[1]	16.1	13.3	+21%
Earnings per share[1]	29.8p	24.5p	+22%
Interim dividend per share	13.0p	12.0p	+8%

[1] Before intangible amortisation of £0.7m (HY 2015: intangible amortisation of £1.1m and an exceptional operating charge of £39.4m)

GALLIFORD

Description

Galliford Try plc is a United Kingdom-based housebuilding and construction company. The Company's housebuilding division includes Linden Homes and Galliford Try Partnerships. The Company's segments include Linden Homes and Galliford Try Partnerships; Construction, including Building and Infrastructure, and public private partnership (PPP) Investments. The Company's Linden Homes develops both private and affordable homes for sale, primarily in the south of England and the eastern counties. Its Galliford Try Partnerships provides specialist affordable housing business. Its Building and Infrastructure serves clients across the United Kingdom and carries out civil engineering projects, primarily in the highways, rail and aviation, environmental, water and waste, and power and security markets. Its PPP Investments delivers building and infrastructure projects through public private partnerships.

M&A History

The Company was created in 2000 through a merger of Try Group plc, founded by WS Try in 1908 in London, and Galliford plc.

Galliford's roots date back to 1916, but the steamroller hire business was closed down during the Second World War. Thomas Galliford's four sons later re-formed the business and Galliford & Sons was incorporated in 1952. Galliford developed primarily as a civil engineering business but it entered the private housing market in 1973 with the acquisition of Crabb Curtis. The housing contribution was later extended through Stamford Homes and, in 1998, the acquisition of Midas Homes, by which time the group was building around 500 houses a year.

Try operated as a general contractor until the early 1970s, when Try Homes was formed. Despite acquisitions, housing remained on a relatively small scale, peaking at around 200 units a year in the early 1990s. The Company acquired Morrison Construction from AWG plc in 2006 and Kendall Cross in 2007.

It entered the housebuilding business acquiring Gerald Wood Homes in 2001, Chartdale in 2006 and Linden Homes in 2007. As part of a drive to increase housing unit output Galliford Try acquired Rosemullion Homes, and Wrights of Hull in late 2009. All the individual house building divisions were re-branded as Linden Homes in 2011.

Then in July 2014 the company bought the construction division of Miller Homes. In May 2015, Shepherd Homes (formerly part of Shepherd Building Group) was acquired by the Linden Homes subsidiary.

Market Capitalisation

Market Capitalisation:	£1,108.09 million
Shares In Issue:	82.88 million

Source: OCTA

Lead Shareholders

Holder	Shares	% Held
Standard Life Investments Ltd. AS OF 16 SEP 2015	5.73m	6.91%
Brewin Dolphin Ltd. AS OF 28 JUL 2016	4.29m	5.18%
Aberforth Partners LLP AS OF 16 SEP 2015	3.54m	4.27%
Hargreave Hale Ltd. AS OF 01 SEP 2016	3.06m	3.69%
Henderson Global Investors Ltd. AS OF 01 SEP 2016	2.99m	3.61%

Chief Executive

Peter Truscott

5 Year Results

	2012 £m	2013 £m	2014 £m	2015 £m (Restated – note 1)	2016 £m
Group revenue	1,504.1	1,467.3	1,767.8	2,348.4	**2,494.9**
Profit before exceptional items	63.1	73.6	94.9	117.7	**135.0**
Exceptional items	–	0.5	0.3	(3.7)	**–**
Profit before taxation	63.1	74.1	95.2	114.0	**135.0**
Tax	(13.8)	(15.9)	(18.0)	(21.7)	**(26.1)**
Profit after taxation attributable to shareholders	49.3	58.2	77.2	92.3	**108.9**
Fixed assets, investments in joint ventures and available for sale financial assets	41.9	42.5	40.2	41.0	**60.8**
Intangible assets and goodwill	126.8	128.4	128.1	156.4	**152.2**
Net current assets	354.2	379.0	586.5	690.6	**633.2**
Long-term receivables	43.6	48.4	61.2	32.5	**78.0**
Long-term payables and provisions	(88.1)	(96.9)	(281.8)	(351.3)	**(324.2)**
Net assets	478.4	501.4	534.2	569.2	**600.0**
Share capital	40.9	40.9	41.1	41.1	**41.4**
Reserves	437.5	460.5	493.1	528.1	**558.6**
Shareholders' funds	478.4	501.4	534.2	569.2	**600.0**
Dividends per share (pence)	30.0	37.0	53.0	68.0	**82.0**
Basic earnings per share (pence)	60.9	71.7	94.6	112.8	**132.5**
Diluted earnings per share (pence)	59.7	69.8	93.0	110.9	**131.3**

Source: Deloitte

"Galliford is a strong Diversified Housing and Construction Group with a Market Capitalisation of £1.1bn, a Turnover of £2.5bn, PBT £135m and Net Assets of £600m. It will continue to enjoy a buoyant housing market, and may choose to grow by Merger with another complimentary Group like Countryside, or via Acquisition of Miller Homes, which decided not to list in 2014 as planned, but have shareholders wishing to exit. Galliford is a strong Group with no debt. It could seek to make acquisitions (eg. Interserve or Countryside); or merge with a Group like Kier- if its strategy is to grow via M&A."

Recent Share Price Movements

Business Summary

Constructs residential and commercial buildings

GallifordTry

Galliford Try Plc engages in the provision of construction and housebuilding services.

It operates through the following segments: Housebuilding, Construction, and PPP Investments.

The Housebuilding segment comprises of Linden Homes and Galliford Try Partnerships.

The Construction segment includes building and infrastructure business under the Galliford Try and Morrison Construction brands.

The PPP Investments segment invests in building and infrastructure projects through public private partnerships.

The company was founded in 2000 and is headquartered in Uxbridge, United Kingdom.

Number of employees : 5 959 persons.

Sales per Businesses

	2015		2016		Delta
	GBP *(In Million)*	%	GBP *(In Million)*	%	
Construction	1,282	54.6%	1,493	59.8%	+16.43%
Housebuilding	1,050	44.7%	-	-	-
PPP Investments	15.70	0.7%	7.80	0.3%	-50.32%
Central Costs	0.300	0%	0.600	0%	+100%
Linden Homes	-	-	708.50	28.4%	-
Partnership & Regeneration	-	-	285.10	11.4%	-

Sales per Regions

	2015		2016		Delta
	GBP *(In Million)*	%	GBP *(In Million)*	%	
United Kingdom	2,348	100%	2,495	100%	+6.24%

Managers

Name	Age	Since	Title
Peter Truscott	-	2015	Chief Executive Officer & Executive Director

Source: 4-Traders.com

Galliford Try is a strong Diversified Housing and Construction Group with a Market Capitalisation of £1.1bn, a Turnover of £2.5bn, PBT £135m and Net Assets of £600m. It will continue to enjoy the current buoyant housing market and outlook, and may choose to grow by M&A. Complimentary Housing Groups like Countryside, and Miller Homes, (Galliford having already acquired Miller Construction), which decided not to list in 2014 as planned, may become the target of the growth aspirations of Groups like Galliford, especially if the latter's funders/ key shareholders seek an exit strategy.

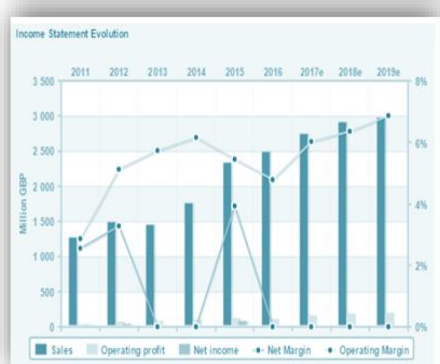
Financial Ratios

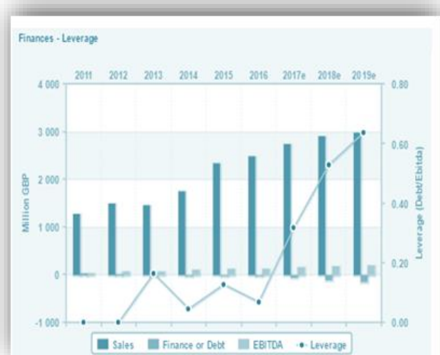
Size	2017e	2018e
Capitalization	1 099 M GBP	-
Entreprise Value (EV)	1 154 M GBP	1 201 M GBP

Valuation	2017e	2018e
P/E ratio (Price / EPS)	8,77x	7,63x
Capitalization / Revenue	0,40x	0,38x
EV / Revenue	0,42x	0,41x
EV / EBITDA	6,66x	6,22x
Yield (DPS / Price)	7,30%	7,97%
Price to book (Price / BVPS)	1,68x	1,57x

Profitability	2017e	2018e
Operating Margin (EBIT / Sales)	6,03%	6,36%
operating Leverage (Delta EBIT / Delta Sales)	3,76x	1,94x
Net Margin (Net Profit / Revenue)	-	-
ROA (Net Profit / Asset)	-	-
ROE (Net Profit / Equities)	22,1%	22,9%
Rate of Dividend	64,1%	60,8%

Balance Sheet Analysis	2017e	2018e
CAPEX / Sales	0,35%	0,35%
Cash Flow / Sales	5,73%	-0,02%
Capital Intensity (Assets / Sales)	-	-
Financial Leverage (Net Debt / EBITDA)	0,32x	0,53x





COSTAIN

Company Profile

Costain Group PLC is an engineering solutions provider. The Company offers consulting, project delivery, and operations and maintenance services. The Company operates through two segments: Natural Resources and Infrastructure plus a land owner Alcaidesa in Spain, of which it seeks to divest. The Infrastructure segment operates in the highways, rail and nuclear markets. The Company's Natural Resources segment includes the Company's activities in water, power and oil and gas markets. The Company offers a range of integrated services, including advisory and concept development, specialist design, program management, project delivery, technology integration and asset optimization and support. The Company offers life-cycle services to energy, water and transportation sectors across the United Kingdom. The Company provides a range of highway services, from asset inspection and assessment; scheme development; managing the statutory process; detailed design and construction; commissioning and handover, and maintenance and aftercare.

M & A History

Richard Costain purchased the Walton Heath Land Company in 1923, and the business of Richard Costain & Sons was formed. In 1933 the London-based Richard Costain was floated on the London Stock Exchange. Thereafter Costain continued to expand its private housebuilding. Following the flotation, Costain moved into civil engineering but Losses on an overseas railway project, UK sewage works and the costs of Dolphin Square caused financial problems, and Costain had to look for alternative funds when Barclays withdrew its overdraft facilities.

By the mid-1950s as much as 60% of turnover was overseas. Some small estate development was undertaken but it was not until the acquisition of the Rostance Group of Nottingham in 1962 that private housebuilding resumed on any scale. Helped also by the acquisition of the Blackpool firm of R Fielding in 1969, Costain was building around 1,000 houses a year by the early 1970s.

By the 1970s, Costain enjoyed a decade profits increased from little more than £1m a year to £47m. In the 1980s, recognising that exceptional middle east profits could not continue, Costain sought to redeploy its extensive cash balances into coal mining, international housing and commercial property. However, over-expansion in the late 1980s led to high gearing just as international markets were turning down, problems exacerbated by a disaster in Costain's American coal mine. Substantial losses were incurred in the early 1990s and asset sales followed leaving Costain as a predominantly construction-oriented business.

At a dramatic low-point in 1995, the demise of Costain was predicted - incorrectly - by broadsheets in the UK. It was not expected to survive as an operating company by the end of the century.

The company was bailed out by White-Knight Middle East investors- Kharafi of Kuwait, and Raymond International of Bahrain. Following that Intria, (now UEM) a Malaysian construction company, underwrote a three-for- one rights issue to raise pounds 73m and take up to a 40 per cent stake in Costain in 1996. Several subsequent discounted Rights Issues and Share Sales have diluted these companies shareholdings and current shareholdings are: Milton Group Plc 8.5%; UEM 6.1%; Jo Hambro Capital Management Group 6.1%; Henderson Group 6.1%. BlackRock Inc 5.7%.

Costain failed in its bid to Acquire May Guerney in 2014, but succeeded with its £17 million acquisition of hardware and software provider SSL in 2016, following the integration of another bolt-on Acquisition for £36 million of Rhead Group in 2015. Costain is focusing on both organic and focused acquisitive growth to drive the company forward.

Market Capitalisation

Market Capitalisation:	£371.03 million
Shares In Issue:	102.81 million

Source: Citywire 11/10/2016

Consensus Analysts Recommendation

As of Oct 07, 2016, the consensus forecast amongst 4 polled investment analysts covering Costain Group PLC advises investors to purchase equity in the company. This has been the consensus forecast since the sentiment of investment analysts improved on Mar 30, 2016. The previous consensus forecast advised that Costain Group PLC would outperform the market.

Source: Market.ft.com

Chief Executive

Andrew Wyllie

"Following a *Be Safe* Strategy will not save Costain from the inevitability of being Acquired."

An Overview

Of all Contractors analysed Costain is the most stalwart battler in the Industry that escaped demise after Peter Costain's fateful investment in Deep Coal Mining in the US in the early 1990s; It has done so ever since, through repeatedly funding operations where profits were taken too early, with new Equity Issues, usually at a discount to an already depressed share price, and to the detriment of long suffering White Knight Shareholders.

Some would say it was all about survival, and keeping the boat afloat (and executive salaries of course). Management and advisers of many quoted companies take their shareholders for granted. But Costain 's Management since 1996 must have done some soul searching, even while fire-fighting was order of the day.

"Andrew Wyllie has Costain back on its feet, punching above its weight. But with an Enterprise value of just c£300m, and his tenure at the helm probably edging to an 8 year close, surely it is time for Costain to focus on being successfully acquired."

Rather than continuing a failed M&A strategy to claw itself back into the Premier League, it should actively engage with financial and other stakeholders to make sure the full value of the business is recognised. Prior to that Wyllie may want to concentrate on building up its cash balances this year, prior to any sale next.

5 Year Analysis

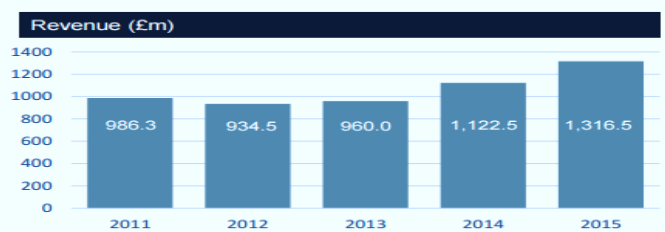
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue and profit					
Revenue (Group and share of joint ventures and associates)	1,316.5	1,122.5	960.0	934.5	986.3
Less: Share of joint ventures and associates	(52.9)	(50.7)	(74.8)	(86.1)	(117.8)
Group revenue	1,263.6	1,071.8	885.2	848.4	868.5
Group operating profit before other items	33.2	28.7	27.4	21.7	24.1
Other items:					
Exceptional transaction costs	–	–	(3.7)	–	–
Amortisation of acquired intangible assets	(3.2)	(3.0)	(1.8)	(1.7)	(0.9)
Employment related and other deferred consideration	(0.4)	(2.2)	(2.8)	(1.7)	(0.7)
Group operating profit	29.6	23.5	19.1	18.3	22.5
Profit on sales of investments	–	–	–	–	0.5
Profit on sales of interests in joint ventures and associates	–	4.0	9.1	10.5	0.3
Share of results of joint ventures and associates	(0.1)	(1.3)	(11.3)	(1.4)	(1.3)
Profit from operations	29.5	26.2	16.9	27.4	22.0
Finance income	0.8	0.7	0.7	1.0	34.1
Finance expense	(4.3)	(4.3)	(4.7)	(3.7)	(32.2)
Net finance (expense)/income	(3.5)	(3.6)	(4.0)	(2.7)	1.9
Profit before tax	26.0	22.6	12.9	24.7	23.9
Taxation	(3.8)	(1.6)	(0.4)	(1.6)	(5.2)
Profit for the year attributable to equity holders of the parent	22.2	21.0	12.5	23.1	18.7
Earnings per share – basic *	21.8p	22.2p	17.6p	32.9p	27.2p
Earnings per share – diluted *	21.2p	21.7p	16.9p	31.8p	26.2p
Dividends per ordinary share					
Final	7.25p	6.25p	7.75p	7.25p	6.75p
Interim	3.75p	3.25p	3.75p	3.50p	3.25p
Summarised consolidated statement of financial position					
Intangible assets	52.3	31.0	33.0	18.7	20.3
Property, plant and equipment	37.3	10.0	7.9	9.1	11.4
Investments in equity accounted joint ventures and associates	2.6	27.5	32.1	40.4	42.9
Other non-current assets	18.8	41.0	31.8	34.9	33.8
Total non-current assets	111.0	109.5	104.8	103.1	108.4
Current assets	421.4	346.9	276.5	290.6	332.0
Total assets	532.4	456.4	381.3	393.7	440.4
Current liabilities	372.2	299.3	296.1	303.1	348.3
Retirement benefit obligations	36.7	41.7	37.2	51.9	52.9
Other non-current liabilities	2.9	4.6	4.7	6.9	8.4
Total liabilities	411.8	345.6	338.0	361.9	409.6
Equity attributable to equity holders of the parent	120.6	110.8	43.3	31.8	30.8

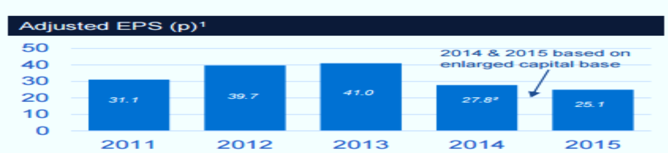
Sources: Annual Report and Company Presentations

Key historic financial information (£m)

Year end December, £m	FY11	FY12*	FY13	FY14	FY15
Revenue	986.3	934.5	960.0	1,122.5	1,316.5
Underlying operating profit	24.1	24.5	27.4	28.7	33.2
margin	2.4%	2.6%	2.9%	2.6%	2.5%
Adjusted profit from operations	23.6	30.8	35.0	31.4	33.1
Profit before tax (Reported)	23.9	24.7	12.9	22.6	26.0
Cash generated/(used by) operations***	34.7	(22.3)	(32.9)	43.6	18.2
Cash and cash equivalents	141.7	107.4	84.3	148.5	146.7
Net cash	140.1	105.7	57.7	148.5	108.2

Source Costain company reports





Weighted average number of shares (m)	
2015	101.7
2014	94.6
2013	71.2
2012	65.3
2011	64.1

Business Summary

Provides engineering and property development services

Costain Group Plc provides engineering solutions for various infrastructure projects in the United Kingdom and internationally.

The company provides front-end engineering consultancy, construction and ongoing care and maintenance services across market sectors including water, waste, power, rail, hydrocarbons and chemicals, highways and nuclear process.

It has two core business segments: Natural Resources and Infrastructure plus Alcaidesa the Land Development operations in Spain.

The company's services include advisory and concept development, specialist design, program management, complex project delivery, technology integration, asset optimization and support.

Costain Group was founded by Richard Costain in 1865 and is headquartered in Maidenhead, the United Kingdom.

Number of employees : 4 168 persons.

Sales per Businesses

	2014		2015		Delta
	GBP *(in Million)*	%	GBP *(in Million)*	%	
Infrastructure	770.30	71.9%	962.90	76.2%	+25%
Natural Resources	301.50	28.1%	298.80	23.6%	-0.9%
Alcaidesa	-	-	1.90	0.2%	-

Sales per Regions

	2014		2015		Delta
	GBP *(in Million)*	%	GBP *(in Million)*	%	
United Kingdom	1,071	99.9%	1,261	99.8%	+17.75%
Rest of the World	1.10	0.1%	0.900	0.1%	-18.18%
Spain	-	-	2.00	0.2%	-

Managers

Name	Age	Since	Title
Andrew Wyllie, MBA	53	2005	Chief Executive Officer & Executive Director

***"Costain** is an admirable survivor with a "steady as you go" strategy and a brand name that has allowed it to continue to punch above its weight since near demise in the early 1990s. But its days as an independent company are probably numbered now the supportive minority shareholders have diluted their holdings and their nominees have left the Board. With its cash position deteriorating somewhat, and future acquisition aspirations of any substance waning, surely it's time to seek to be positively acquired by a larger financially robust partner who can help it back into a Tier 1 position it deserves, given its unquestionable engineering capabilities."*

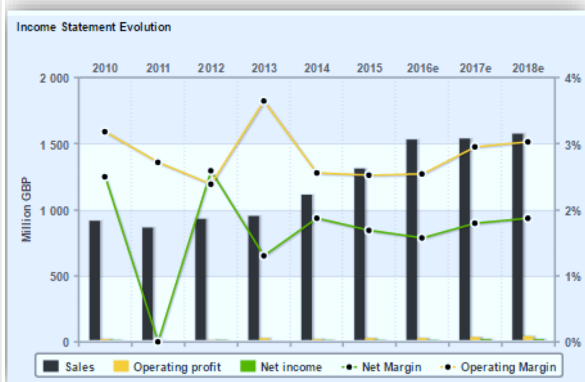
Financial Ratios

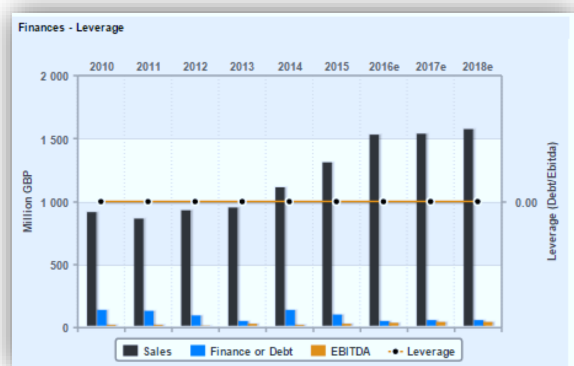
Size	2016e	2017e
Capitalization	369 M GBP	-
Entreprise Value (EV)	309 M GBP	302 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	15,5x	13,5x
Capitalization / Revenue	0,24x	0,24x
EV / Revenue	0,20x	0,19x
EV / EBITDA	7,34x	6,15x
Yield (DPS / Price)	3,48%	4,13%
Price to book (Price / BVPS)	-	-

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	2,54%	2,95%
operating Leverage (Delta EBIT / Delta Sales)	1,05x	20,8x
Net Margin (Net Profit / Revenue)	1,57%	1,80%
ROA (Net Profit / Asset)	-	-
ROE (Net Profit / Equities)	33,7%	33,8%
Rate of Dividend	54,1%	56,0%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	0,16%	0,16%
Cash Flow / Sales	-	-
Capital Intensity (Assets / Sales)	-	-
Financial Leverage (Net Debt / EBITDA)	-1,42x	-1,38x





Source: 4-Traders.com

INTERSERVE

Company Profile

Interserve Plc is a United Kingdom-based support services and construction company that offers advice, design, construction, equipment, facilities management and frontline public services. The Company provides a range of integrated services in the outsourcing and construction markets. It operates through three segments: Support Services, Construction and Equipment Services. The Support Services segment focuses on the management and delivery of operational services to both public and private-sector clients in the United Kingdom and internationally. The Construction segment offers design, development, consultancy and construction services for building and infrastructure projects. The Equipment Services segment operates globally, designing, hiring and selling formwork and falsework solutions for use in infrastructure and building projects. It provides outsourced services in sectors, such as hospitality, leisure, education, defence, retail, and oil and gas across the Middle East region.

M & A History

Tilbury Contracting Group Limited applied for admission of its shares onto the London Stock Exchange and trading commenced on 12 October 1966.

In 1991 Tilbury acquired RM Douglas, another construction and civil engineering business, the combined business becoming known as Tilbury Douglas. Although both groups had a UK-wide presence, the rationale of the acquisition was that the two companies complemented each other. Tilbury Group was headquartered in Reading and predominantly involved in building work in the South of England and in Scotland, while R M Douglas was headquartered in Birmingham and its strongest regional presence was in the Midlands and the North of England with a strong bias towards civil engineering projects.

The acquisition of Douglas also brought with it the construction equipment company Rapid Metal Developments (RMD) a formwork and falsework manufacturer, together with joint ventures in Oman (Douglas OHI) and United Arab Emirates both of which were initially established by Douglas in 1981. This expanded the geographical coverage of the company to the Middle East and this presence was further strengthened by the establishment of a joint venture in Qatar (Gulf Contracting Company).

A series of acquisitions and disposals in the late 1990s and 2000 moved the focus of the group away from property development and housebuilding, as the group sought to build presence in the maintenance and facilities management sectors, though it retained a strong presence in traditional construction contracting. Acquisitions at this time included electrical engineering contractor J R Williams in 1997, the facilities management and engineering services business How Group purchased for £46m in 1998, the £75m takeover of industrial and equipment services specialist Bandt Group in 1999 and, in a £75m purchase, facilities management company Building and Property, responsible for providing accommodation and property services to government departments.

During this period the company disposed of its Scottish housebuilding business to Persimmon plc, diminishing the significance of revenues from traditional construction contracting work streams, with the newly diversified group now earning significant revenue through its facilities management and maintenance capability, which are otherwise known as support services provision. To reflect this change in the company's business profile, it successfully applied in 2000 to the London Stock Exchange to relinquish its listing within the construction sector of the market, to re-list within the support services sector on the FTSE market list. To reflect this change it renamed itself Interserve in 2001.

On 2 May 2006 Interserve acquired MacLellan, another support services business for a consideration of £118m. Then in 2007 the Group acquired a 49 per cent stake in the Qatar-based Madina Group. In 2008 Interserve expanded into markets in Abu Dhabi and Northern Europe. Interserve announced in November 2010 that it had acquired the US formwork and shoring business CMC Construction Services in a deal c. £22 m.

On 4 May 2012 the company acquired "Welfare-to-work" provider Business Employment Services Training Limited (BEST), one of the UK's leading providers of training and development for job-seekers and employers. Then on 12 October 2012 Interserve announced that it had sold its stakes in some of the UK’s best known private finance initiative hospitals, schools and prisons for £90m. Dalmore Capital Fund, a UK infrastructure fund, agreed to buy 19 of the businesses PFI investments, which generated £4.6m profits for the group in 2011. On 18 December 2012 it was announced that the Company had acquired Advantage Healthcare, a leading UK provider of healthcare at home services for £26.5m in cash. Then on 7 January 2013 the organisation announced the acquisition of The Oman Construction Company for a cash consideration of $34.1m.

On 28 February 2014, the company acquired Initial Facilities from Rentokil Initial for £250m.

Market Capitalisation:	£655.71 million
Shares In Issue:	145.71 million

Source: Citywire 11/10/2016

Consensus Analysts Recommendation

As of Oct 07, 2016, the consensus forecast amongst 7 polled investment analysts covering Interserve plc advises that the company will outperform the market. This has been the consensus forecast since the sentiment of investment analysts deteriorated on May 04, 2016. The previous consensus forecast advised investors to purchase equity in Interserve plc.

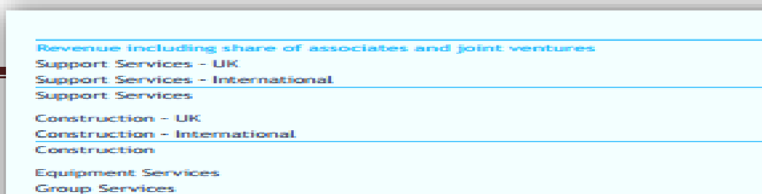
Source: Market.ft.com

Chief Executive

Adrian Ringrose

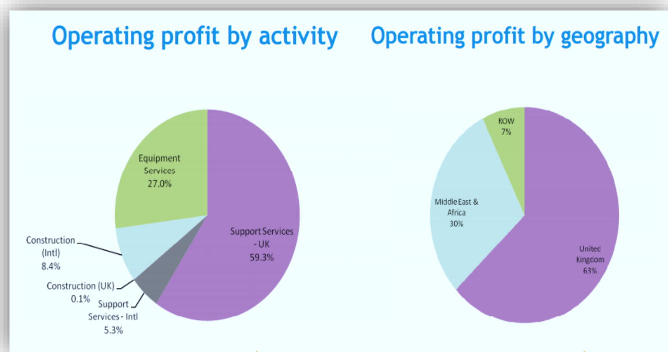
An Overview

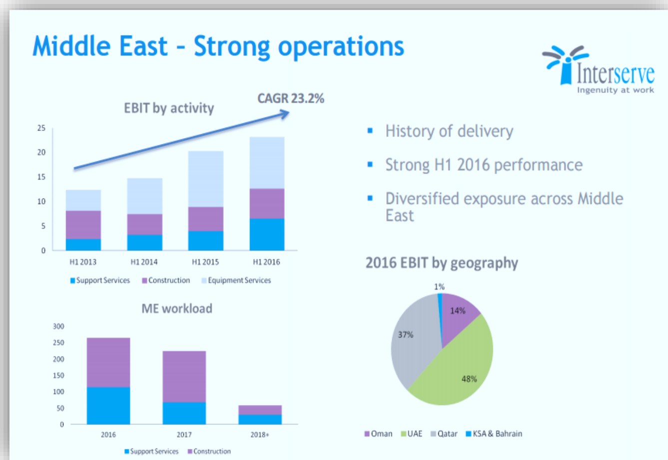
“Adrian Ringrose has built up a support services business from its roots as Tilbury Douglas. He has had his set-backs like the August 2006 announcement to the London Stock Exchange that accounting issues relating to the mis-statement of accounting balances had resulted in a £30m write-down, But the Group is strong and well diversified. With a Middle East presence as well, and a nominal Pension Deficit compared with its peers, Interserve is a good candidate for merger to form one of the top tier construction groups in the UK. Due to its low Market Capitalisation, it could otherwise become an acquisition target.”



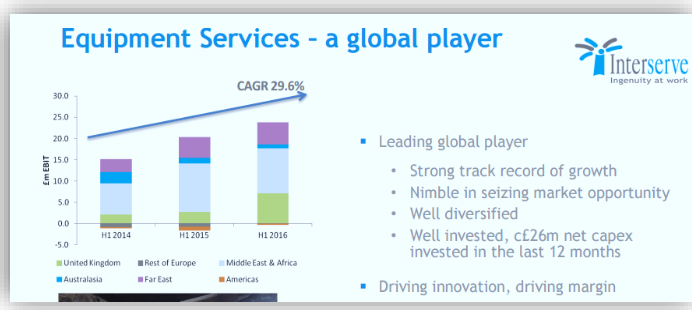
Revenue including share of associates and joint ventures
Support Services - UK
Support Services - International
Support Services
Construction - UK
Construction - International
Construction
Equipment Services
Group Services

2015 Year End and 2016 Results Key Features





Source: Company Presentations



DIVISIONAL PERFORMANCE

The Group's main shareholders are Standard Life Investments Ltd., Henderson Group Plc, Old Mutual Plc. and Mondrian Investment Partners, Ltd., which at December 2015 had an ownership interest of 11.7%, 5.3%, 5.0% and 5.0%, respectively.

The Group's portfolio is divided into three main areas: Construction, Support Services and Equipment Services, all of which are supported by central Group Services.

Construction Interserve offers design, development, consultancy and construction services to create whole-life, sustainable solutions for building and infrastructure projects. The division performs activities both in the local market and internationally. In the UK, market demand continued to strengthen in the period, particularly in fit-out and regional building. International Construction continued to gain momentum, stimulated by development plans such as Qatar's "Vision 2030", the UAE's plans for Expo 2020 and the ongoing need for infrastructure development to keep pace with rapid population growth in the region. As a result, the division's total sales in 2015 rose by 12% to GBP 1,320 million. Both domestic and international construction revenue increased in 2015 by 7% and 34%, respectively. It should be highlighted that 79% of total construction sales are obtained within the UK. Regional business in 2015 was particularly successful, thanks to a high number of new contracts, such as a GBP 200 million Defence and National Rehabilitation Centre (DNRC) at Stanford Hall, near Loughborough.

Support Services Support Services focuses on the management and delivery of operational services to both public and private-sector clients in the UK and internationally.

In 2015 total Support Services sales increased by 8% to GBP 2,106 million. Interserve delivered strong organic growth in the UK, achieving revenue of GBP 1,881 million (9% higher than in 2014) and a further 5% improvement in the operating margin (4.8% in 2014). The Company strengthened its presence in the UK transport sector by securing contract extensions with Govia, London Underground and Network Rail. With regard to international activity, a mix of contract awards and increasing volumes with existing customers resulted in strong revenue growth and an 11% rise in operating profit to GBP 8.2 million. Highlights of the period were winning construction and installation contracts with BP Khazzan, Gulf Petrochemicals Services Company and RasGas, and a contract to provide technical support to Qatar Shell GTL.

Equipment Services Equipment Services operates globally, designing, hiring and selling formwork and falsework solutions for use in infrastructure and building projects. Performance in the period was very positive, with revenue increasing by 8% and operating profit increasing by 58%, to GBP 41.9 million. Operating margin jumped from 13.6% in 2014 to 19.9% in 2015. In 2015 the division extended its reach by opening new branches in India and the United States but, at the same time, it reduced its presence in other markets such as Australia.

Group Services This segment includes all central costs, including those related to the Group's financing and central bidding activities. Nowadays, this segment also comprises Investments, which used to be reported separately. Within the investment line, the Group focuses on project-investment activities and manages equity investments both in Public Private Partnership (PPP) and private-sector projects. Revenue of the Group Services division for 2015 amounted to GBP 53.9 million, 15.4% higher than in 2014. Additionally, Group Services costs fell to GBP 23.6 million. This net reduction accommodated increased investment in back-office capabilities, IT infrastructure, people development and communications.

Business Summary

Engages in the real estate business

Interserve Plc engages in the business of real estate.

It operates through the following segments: Support Services, Construction and Equipment Services, and Group Services.

The Support Services segment provides management and delivery of operations services to both public and private-sector clients in the United Kingdom and international.

The Construction, and Equipment segment offers design, development, consultancy and construction services in the field of building and infrastructure projects, as well as design, hiring and sale of formwork and falsework solutions.

The Group Services relates to financing and central bidding activities.

The company was founded in 1884 and is headquartered in Reading, the United Kingdom.

Number of employees : 83 570 persons.

Sales per Businesses

	2014		2015		Delta
	GBP *(in Million)*	%	GBP *(in Million)*	%	
Support Services	1,797	61.7%	2,005	62.6%	+11.54%
Construction	970.70	33.3%	1,041	32.5%	+7.22%
Equipment Services	195.50	6.7%	211.00	6.6%	+7.93%
Group Services	8.10	0.3%	9.60	0.3%	+18.52%

Sales per Regions

	2014		2015		Delta
	GBP *(in Million)*	%	GBP *(in Million)*	%	
United Kingdom	2,635	90.5%	2,850	88.9%	+8.18%
Middle East & Africa	206.50	7.1%	279.20	8.7%	+35.21%
Rest of Europe	42.50	1.5%	49.40	1.5%	+16.24%
Australasia	31.40	1.1%	24.10	0.8%	-23.25%
Americas	27.00	0.9%	28.80	0.9%	+6.67%
Far East	21.30	0.7%	24.70	0.8%	+15.96%

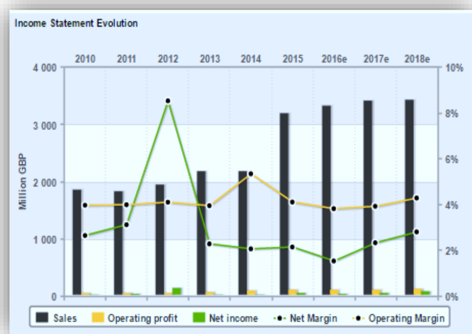
Financial Ratios

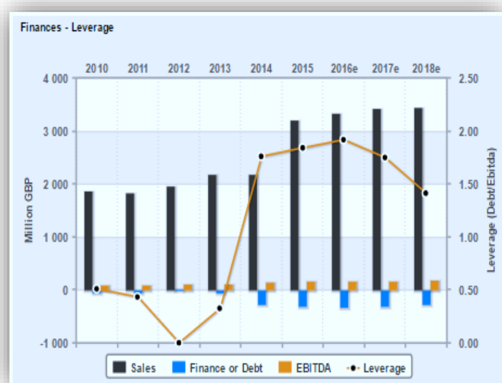
Size	2016e	2017e
Capitalization	518 M GBP	-
Entreprise Value (EV)	840 M GBP	831 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	10,0x	6,50x
Capitalization / Revenue	0,16x	0,15x
EV / Revenue	0,25x	0,24x
EV / EBITDA	5,00x	4,65x
Yield (DPS / Price)	7,11%	7,42%
Price to book (Price / BVPS)	1,09x	1,06x

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	3,82%	3,93%
operating Leverage (Delta EBIT / Delta Sales)	-	2,08x
Net Margin (Net Profit / Revenue)	1,54%	2,34%
ROA (Net Profit / Asset)	5,20%	5,30%
ROE (Net Profit / Equities)	19,4%	19,9%
Rate of Dividend	71,1%	48,3%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	1,49%	1,54%
Cash Flow / Sales	1,29%	1,66%
Capital Intensity (Assets / Sales)	0,30x	0,44x
Financial Leverage (Net Debt / EBITDA)	1,92x	1,75x





Source: 4-traders.com

Interserve's core Construction and Support Services businesses are firing on all cylinders, with net income rising 74% in 2015. A well run and diversified business in terms of these two business sectors. Also it has recently decided to retain its Formwork subsidiary with its strong Middle East business. All analysts seem to concur that the company has performed well despite setbacks, but is it ready to invest what's probably needed to break into the big league.

KEY DATA PERFORMANCE

Key Data (GBP Million)	2015	2014	2013	Variation 2015-2014 %
Assets				
Non-current assets	889	840	558	5.8%
Current assets	926	810	597	14.3%
Total assets	1,815	1,650	1,155	10%
Liabilities and equity				
Equity	513	480	370	6.9%
Non-current liabilities	465	386	141	20.6%
Current liabilities	837	784	643	6.7%
Total liabilities and equity	1,815	1,650	1,155	10%
Statement of profit or loss				
Sales	3,629	3,305	2,582	9.8%
National sales	3,126	2,940	2,266	6.3%
International sales	503	365	316	38.0%
Construction sales	1,320	1,179	1,018	12%
Non-construction sales	2,309	2,126	1,564	8.6%
EBITDA	163	120	99	35.6%
EBIT	73	56	57	30.1%
Net income	80	50	55	60.3%
Net income attributable to the Group	79	45	50	73.6%
Other key data				
Net debt	309	269	39	14.8%
Order book	7,700	8,100	6,400	(4.9%)
Market capitalisation	756	802	804	(5.8%)

Source: Deloitte

Sources: Deloitte and Company Reports

Financial Performance. Total Interserve Group revenue increased by 9.8% to GBP 3,629 million, explained principally by the positive performance of the Construction and Support Service sectors. As a result, net income attributable to the Group rose by 73.6% to GBP 79 million in 2015.

News Release
10th October 2016

Conclusion of Strategic Review of Equipment Services

"Interserve, the international support services and construction group, today announces the conclusion of the strategic review of its Equipment Services business (which trades as RMD Kwikform ("RMDK").

In February 2016 we announced that following several years of substantial growth across the Group, we would conduct a strategic review of RMDK to assess the full range of options to maximise value for shareholders.

Through the strategic review, the Board has concluded that we remain the best owner for RMDK and that retaining RMDK as a core part of the Group, with an updated strategy, best maximises value creation for shareholders.

RMDK is a global market leader solving complex engineering problems for its customers, through the application of world-class design and logistics capabilities, backed up by an extensive fleet of specialist equipment. RMDK contributed 32% of Group total operating profit in 2015.

The business has a track record of attractive growth (8% CAGR over the last 15 years), is highly cash generative through the cycle and produces excellent returns on capital employed (20% in 2015). It is a global business, providing an important element of diversification to the rest of the Group's predominantly UK-based earnings profile.

Whilst some of our end markets face some near term uncertainty, the structural drivers for global infrastructure remain strong. This, together with our proven ability to identify and respond as market demand shifts globally, underpins our confidence in the medium-term outlook and in the business's ability to deliver sustainable margins above 20%, as we have previously guided.

The strategy for RMDK will focus around the following:

- Strengthening our positions where we have market leadership, through disciplined investment and operational excellence
- Driving our use of digital technology to differentiate further our engineering-led customer value proposition
- Developing a leading position in ground shoring, initially in the UK, to complement our existing strengths in falsework and formwork
- Investing in growth markets to develop a stronger position and improved financial performance, in addition to our established core markets
- Restructuring operations in a number of smaller, less attractive markets"

Taylor Wimpey

Company Profile

Taylor Wimpey plc is a national developer operating at a local level from over 24 regional businesses across the United Kingdom. The Company also has operations in Spain. Its segments include Housing United Kingdom and Housing Spain. The Housing United Kingdom segment includes North, Central and South West, and London and South East (including Central London) divisions. The North division covers its East and West Scotland, North East, North Yorkshire, Yorkshire, North West, Manchester, North Midlands, Midlands and West Midlands regional businesses. The Central and South West Division covers its East Midlands, South Midlands, East Anglia, Oxfordshire, South Wales, Bristol, Southern Counties and Exeter regional businesses. The London and South East Division includes Central London and covers its East London, North Thames, South East, South Thames and West London regional businesses. It builds homes in various locations of Costa Blanca, Costa del Sol and the island of Mallorca.

M&A History

Taylor Wimpey was created by the £5bn Merger of Wimpey Homes with Taylor Woodrow in 2007. M&A of the two Groups in Housing included (NB. Over £1.8bn noted below):

Taylor Woodrow

In January 2001 Taylor Woodrow acquired Bryant Group, a business founded in Birmingham in 1885 by Chris Bryant, for £556 million and in October 2003 Taylor Woodrow acquired Wilson Connolly in a cash and shares deal worth £499 million.

George Wimpey

In the 1970s George Wimpey became the UK's largest private house builder selling 106,440 homes in the decade, In 1996 George Wimpey acquired McLean Homes, a business founded in the 1934 by John McLean, from Tarmac. In 2001 McAlpine Homes was acquired from Alfred McAlpine in a £463 million deal and in 2002 George Wimpey went on to acquire Laing Homes, a premium housebuilder, from John Laing for £295 million.

Post-merger

In March 2011 a property investment group backed by private equity firms acquired Taylor Wimpey's American and Canadian housebuilding businesses.

Consensus Analysts Recommendation

As of Oct 07, 2016, the consensus forecast amongst 14 polled investment analysts covering Taylor Wimpey plc advises that the company will outperform the market. This has been the consensus forecast since the sentiment of investment analysts improved on Jun 21, 2013. The previous consensus forecast advised investors to hold their position in Taylor Wimpey plc.

Source: Market.ft.com

Chief Executive

Peter Redfurn

An Overview

The Merger in 2007 of Wimpey and Taylor Woodrow was not in search of size, it was survival, and the combined debt in the subsequent market decline almost brought about its demise. Mergers and takeovers that take place towards the end of a sustained boom can often turn out to be damaging for both businesses. House sales collapsed due to the credit crunch and the merged business suffered a £1.5bn loss in 2008. But the error was made by Wimpey Management to take part in the 1996 Asset Swap with Tarmac to become a larger Housing Group in a cyclical industry, with no Cash Cow business to prop up cash flow in a down-turn

Redfurn has made a successful and commendable turnaround of the business following its brave Rights Issue, but it is time not only to reap the benefit of the coming boom housing market but also align itself strategically for the future. If it became part of a broader Group it could manage fully the risks of future economic cycles. Sir Godfrey Mitchell and Lord Taylor were friendly rivals and never knew one day their empires would merge. Mitchell set up the Grove (Tudor) Trust Fund to give to charity, while ensuring his company was never aggressively acquired by an unwanted predator. Maybe time for Taylor Wimpey to merge with a complimentary UK bed-fellow to ensure that doesn't happen anytime in the near future, and keep the company secure from unwanted predators.

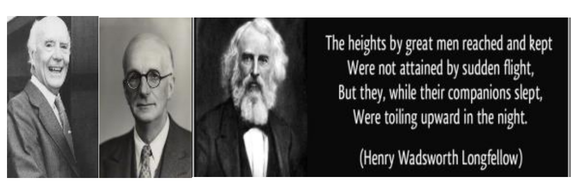
UK Housing is a sector any large UK Construction Group should consider re-entering. M&A is the route to do so, thereby avoiding the Barriers to Entry of developing a new land bank in a market that's on the up.

TAYLOR WOODROW + George Wimpey = Taylor Wimpey

Market Capitalisation

Market Capitalisation:	£5,011.72 million
Shares In Issue:	3,264.96 million

Source: Citywire 11/10/2016



5 YEAR ANALYSIS

£ million	2015	2014	2013	2012	2011
Revenue – continuing operations	**3,139.8**	2,686.1	2,295.5	2,019.0	1,808.0
Profit on ordinary activities before exceptional items, finance costs and tax	**632.1**	478.1	309.7	223.7	158.3
Share of results of joint ventures	**4.9**	2.6	3.2	2.4	1.2
Exceptional items	**(0.6)**	18.7	45.6	–	(5.8)
Net finance costs, including exceptional finance costs	**(33.2)**	(30.6)	(52.3)	(21.9)	(75.1)
Profit for the financial year before taxation	**603.2**	468.8	306.2	204.2	78.6
Taxation (charge)/credit	**(113.4)**	(94.4)	(66.4)	24.4	(22.7)
Profit for the year from discontinued operations	**–**	–	31.3	–	43.1
Profit for the financial year	**489.8**	374.4	271.1	228.6	99.0
Profit for the financial year before taxation and exceptional items	**603.8**	450.1	268.4	181.8	89.9
Balance sheet					
Intangible assets	**2.7**	2.5	4.2	5.2	5.1
Property, plant and equipment	**20.0**	16.8	8.3	7.1	5.0
Interests in joint ventures	**27.1**	38.6	34.7	31.5	31.9
Non-current trade and other receivables	**95.4**	111.1	110.8	102.0	70.3
Non-current assets (excluding tax)	**145.2**	169.0	158.0	145.8	112.3
Inventories	**3,891.2**	3,490.1	2,928.8	2,788.8	2,686.6
Other current assets (excluding tax and cash)	**114.0**	102.6	118.5	96.0	72.5
Trade and other payables	**(1,093.4)**	(910.0)	(793.9)	(772.6)	(697.8)
Provisions	**(31.1)**	(40.4)	(28.3)	(84.4)	(76.6)
Net-current assets (excluding tax and cash)	**2,880.7**	2,642.3	2,225.1	2,027.8	1,984.7
Trade and other payables	**(402.0)**	(361.5)	(193.7)	(190.8)	(199.7)
Retirement benefit obligations	**(178.4)**	(183.8)	(183.8)	(244.2)	(210.2)
Provisions	**(2.9)**	(1.0)	(6.0)	(10.7)	(18.5)
Non-current liabilities (excluding debt)	**(583.3)**	(546.3)	(383.5)	(445.7)	(428.4)
Net cash/(debt)	**223.3**	112.8	5.4	(59.0)	(116.9)
Tax balances	**57.4**	157.5	246.8	320.6	283.3
Net assets	**2,723.3**	2,535.3	2,251.8	1,989.5	1,835.0
Capital employed	**2,497.3**	2,420.0	2,242.2	2,043.3	1,946.8
Add back intangibles	**2.7**	2.5	4.2	5.2	5.1
Less tax balances	**(57.4)**	(157.5)	(246.8)	(320.6)	(283.3)
Net operating assets	**2,442.6**	2,265.0	1,999.6	1,727.9	1,668.6
Statistics					
Adjusted basic earnings per share – continuing Group	**14.9p**	11.2p	6.7p	4.6p	2.1p
Tangible net assets per share	**83.5p**	77.9p	69.6p	61.5p	57.3p
Number of shares in issue at year end (millions)	**3,258.6**	3,253.5	3,237.0	3,228.3	3,201.4
Return on capital employed	**25.9%**	20.6%	14.6%	11.3%	8.3%
Operating margin	**20.3%**	17.9%	13.6%	11.2%	8.8%
Return on net operating assets	**27.1%**	22.5%	16.8%	13.3%	9.8%
Growth in net assets	**7.4%**	12.6%	13.2%	8.4%	0.7%
UK short term landbank (plots)	**75,710**	75,136	70,628	65,409	65,264
UK ASP £000	**230**	213	191	181	171
UK Completions (homes)	**13,341**	12,454	11,696	10,886	10,180

Source: Annual Report

Analysts at Jefferies said of the 2015 Results;

"In our view, Taylor Wimpey has had a clear strategy since the credit crunch, to focus on value rather than volume and to invest in strategic land. The group is getting close to its optimal scale of 14,000 units per annum and the landbank and infrastructure to support this aspiration are in place. With almost a 'one-one-out' landbank strategy and close to half of land strategically sourced, margins and cash generation are high. We therefore believe that there are upside risks to the dividend and fewer operational risks than for its more growth-orientated peers."

However, for a company with such fine current credentials, it seems to lack something in terms of long term vision. It has essentially peaked in terms of volume as a lead UK House Builder, and maybe should look to new markets and diversification going forward. As a house builder, there is no reason why it can't take a lead position in putting together such a strategy, after all Frank Taylor, and to a lesser extent Godfrey Mitchell built leading diversified Construction Groups from Housing beginnings.

6 MONTHS TO June 2016

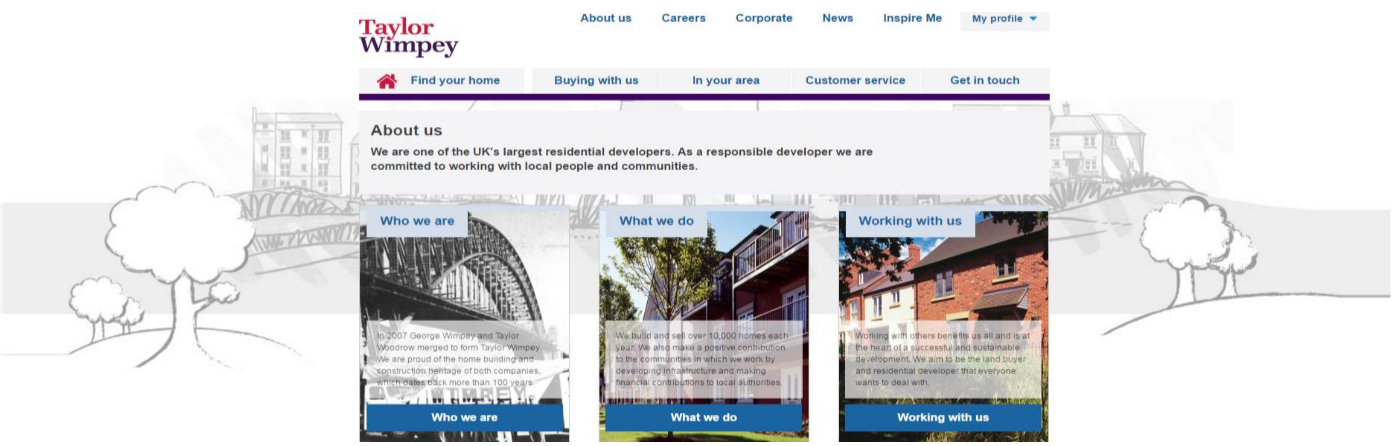
Summary Group balance sheet

Group £m	3 July 2016	28 June 2015	Change	31 Dec 2015
Long term assets and JVs	65.4	57.1	14.5%	49.8
Land	2,881.7	2,672.0	7.8%	2,743.8
WIP	1,396.8	1,083.4	28.9%	1,147.4
Debtors	231.9	229.1	1.2%	209.4
Land creditors	(656.3)	(506.0)	29.7%	(629.8)
Other creditors	(932.0)	(837.5)	11.3%	(865.6)
Pensions and post retirement benefits	(181.1)	(196.3)	(7.7)%	(178.4)
Provisions	(36.5)	(38.0)	(3.9)%	(34.0)
Net operating assets*	**2,769.9**	**2,463.8**	**12.4%**	**2,442.6**
Accrued dividends	(300.0)	(250.0)	20.0%	-
Tax	5.6	115.6	(95.2)%	57.4
Net cash	116.7	87.6	33.2%	223.3
Net assets	**2,592.2**	**2,417.0**	**7.2%**	**2,723.3**
Tangible NAV per share*	**88.5p**	**82.1p**	**7.8%**	**83.5p**

Cash flow summary

Group £m	H1 2016	FY 2015	H2 2015	H1 2015
Profit from ordinary activities before finance costs*	281.4	631.5	377.8	253.7
Increase in inventories	(351.0)	(269.1)	(12.9)	(256.2)
Other operating items**	29.2	64.5	40.8	23.7
Cash (used) / generated by operations	**(40.4)**	**426.9**	**405.7**	**21.2**
Tax	(0.7)	(5.5)	(5.9)	0.4
Interest paid	(4.1)	(14.5)	(9.5)	(5.0)
Net cash (used in) / from operating activities	**(45.2)**	**406.9**	**390.3**	**16.6**
Investing activities	(16.3)	10.6	10.2	0.4
Financing activities	(39.2)	(308.0)	(263.9)	(44.1)
Cash flow for the period	**(100.7)**	**109.5**	**136.6**	**(27.1)**
Net cash b/f	**223.3**	**112.8**	**87.6**	**112.8**
Cash inflow / (outflow)	(100.7)	109.5	136.6	(27.1)
FX and fair value adjustments	(5.9)	1.0	(0.9)	1.9
Closing net cash	**116.7**	**223.3**	**223.3**	**87.6**

Source: Company Website and Financial Presentations



Business Summary

Operates as a residential developer

TaylorWimpey plc Taylor Wimpey Plc is a residential developer with also has a operations in Spain.

It is engaged in land acquisition, home and community design, urban regeneration and the development of supporting infrastructure.

The company operates through two segments: Housing United Kingdom and Housing Spain.

The Housing United Kingdom segment builds a wide range of homes in the UK, from one bedroom apartments to five bedroom houses.

The Housing Spain segment builds homes in popular locations that appeal to both foreign and Spanish buyers.

Taylor Wimpey was founded on July 3, 2007 and is headquartered in High Wycombe, the United Kingdom.

Number of employees : 4 280 persons.

Sales per Businesses

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
Housing United Kingdom	2,652	98.7%	-	-	-
Housing Spain	33.70	1.3%	-	-	-
North Division	-	-	1,094	34.8%	-
Central and South West Division	-	-	1,075	34.3%	-
London and South East Division	-	-	911.60	29%	-
Spain	-	-	58.10	1.9%	-
Corporate	-	-	0.900	0%	-

Sales per Regions

	2014		2015		Delta
	GBP (In Million)	%	GBP (In Million)	%	
United Kingdom	2,652	98.7%	3,081	98.1%	+16.15%
Spain	33.70	1.3%	58.10	1.9%	+72.4%
Corporate	-	-	0.900	0%	-

Source: 4-traders.com

***"Taylor Wimpey** is a star performer among current UK Construction Groups, even though it cannot be described in any way as widely diversified. Strong Revenues, Profits, Order Book and a quality Land Bank have earned it a deserved c. £5bn Market Capitalisation. Quite a turnaround from the woes of the Post -Merger company debt Crisis and market downturn it faced in 2007. But the Group needs to look to its longer term future, and its new focus might well be on capitalising on its financial strength to diversify outside is total dependency on the UK Housing Market, despite its current buoyancy and outlook."*

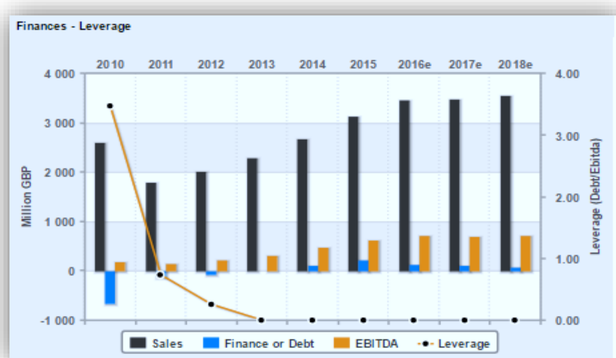
Financial Ratios

Size	2016e	2017e
Capitalization	4 822 M GBP	-
Entreprise Value (EV)	4 694 M GBP	4 700 M GBP

Valuation	2016e	2017e
P/E ratio (Price / EPS)	8,58x	9,32x
Capitalization / Revenue	1,39x	1,38x
EV / Revenue	1,35x	1,35x
EV / EBITDA	6,45x	6,74x
Yield (DPS / Price)	7,60%	9,34%
Price to book (Price / BVPS)	1,64x	1,59x

Profitability	2016e	2017e
Operating Margin (EBIT / Sales)	21,0%	19,8%
operating Leverage (Delta EBIT / Delta Sales)	1,46x	-
Net Margin (Net Profit / Revenue)	16,2%	13,4%
ROA (Net Profit / Asset)	13,3%	10,9%
ROE (Net Profit / Equities)	19,9%	17,4%
Rate of Dividend	65,2%	87,0%

Balance Sheet Analysis	2016e	2017e
CAPEX / Sales	0,15%	0,16%
Cash Flow / Sales	9,60%	10,1%
Capital Intensity (Assets / Sales)	1,22x	1,24x
Financial Leverage (Net Debt / EBITDA)	-0,18x	-0,18x



DIVISIONAL PERFORMANCE

At December 2015 four major shareholders held ownership interests of 4.7% or more in the Group: Blackrock Inc., JP Morgan Asset Management Holdings Inc, FMR LLC and Schroder plc & Schroder Investment Management Limited controlled 5.55%, 4.99%, 4.84% and 4.71% of the Group, respectively.

Some significant projects in which Taylor Wimpey is currently involved include the new Great Western Park community in the Didcot area, which includes the building of approximately 3,000 homes. Taylor Wimpey was also selected by the UK Ministry of Defence to develop the Prince Phillip Barracks project in Hampshire.

The Company spreads its business across the following areas:

North Division The North Division includes East and West Scotland, Yorkshire and Manchester among other regions. Sales increased by 17.4% within this area in 2015, amounting to GBP 1,094 million, thanks both to a higher level of demand and a 7.1% rise in prices. Within this context, the private sales rate increased by 12.1%. The North Division contributed up to 34.8% of total revenue.

Central & South West Division This division covers areas such as Oxfordshire, South Wales, Bristol, Exeter and East and South Midlands. Revenue obtained within this segment amounted to GBP 1,075 million, which represents an increase of 20.8% with respect to 2014 and 34.2% of total Group sales. The average selling price increased by 8.5%.

London and South East Division Business within London and nearby areas are the most representative of this division. The strongest market growth within this segment took place outside Central London. Sales within this segment increased by 10.4% to GBP 911.6 million.

Spain The international business of Taylor Wimpey comprises the building of high quality homes near the Mediterranean coast in Spain. The Company experienced significant improvement within this market, obtaining revenue of GBP 58 million, 72.4% higher than in the previous year. The Company, which completed 251 homes in this area in 2015, aims to increase its presence in the country in the near future.

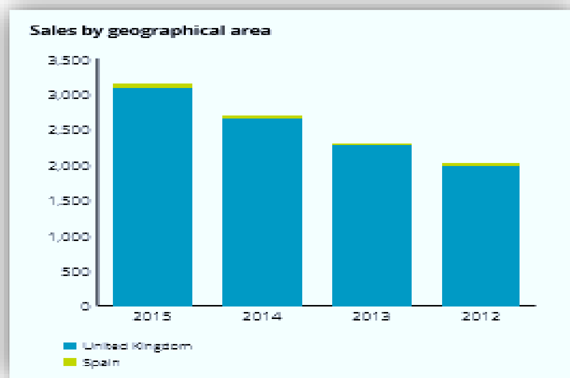
2015 Performance 2015 was a positive year for Taylor Wimpey, as it achieved revenue of GBP 3,140 million, up to 16.9% compared to 2014. It completed 13,219 new homes (excluding those completed through joint ventures) throughout the year, 7.5% more than in the previous year. Expectations for 2016 are also optimistic thanks to the figures of the year-end order book, which amounts to GBP 1,779 million and represents 7,484 homes.

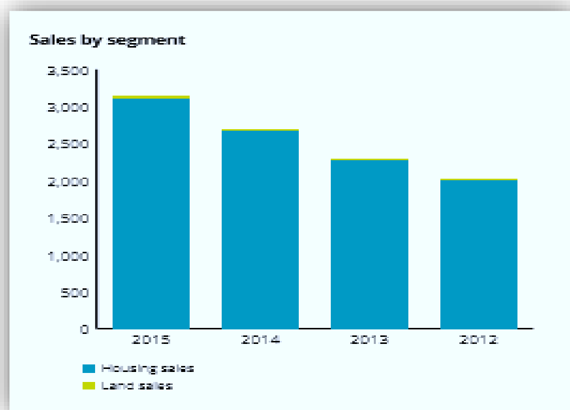
As a consequence of the aforementioned factors, EBITDA increased by 32.2% to GBP 632 million in 2015 and net income attributable to the Group amounted to GBP 490 million, 38.4% higher than in 2014. The value of the Company's shares also benefited from the positive results, achieving record market capitalisation at December 2015.

Source: Google

Key Data (GBP Million)	2015	2014	2013	Variation 2015-2014 %
Assets				
Non-current assets	201	327	405	(38.5%)
Current assets	4,330	3,813	3,160	13.6%
Total assets	4,531	4,140	3,565	9.4%
Liabilities and equity				
Equity	2,723	2,536	2,252	7.4%
Non-current liabilities	683	646	483	5.7%
Current liabilities	1,125	958	830	17.4%
Total liabilities and equity	4,531	4,140	3,565	9.4%
Statement of profit or loss				
Sales	3,140	2,686	2,296	16.9%
National sales	3,081	2,652	2,272	16.2%
International sales	59	34	24	73.5%
Construction sales	3,104	2,667	2,267	16.4%
Non construction sales	36	19	29	89.5%
EBITDA	632	478	310	32.2%
EBIT	632	497	355	27.1%
Net income	490	354	271	38.4%
Net income attributable to the Group	490	354	271	38.4%
Other key data				
Net debt	(223)	(113)	(5)	98%
Order book	1,779	1,397	1,246	27.3%
Market capitalisation	6,618	4,483	3,600	47.6%

Source: Deloitte





LAING O'ROURKE

Company Profile

Laing O'Rourke is a multinational construction company headquartered in Dartford, United Kingdom. It was founded in 1978 by Ray O'Rourke. It is the largest privately owned construction company in the UK.

M&A History

The company was founded by Ray O'Rourke in 1978. It was originally based in east London and was known as R. O'Rourke & Son and carried out Contracting as a Sub-contractor in Concrete Frame construction.

In 2001 R. O'Rourke bought Laing Construction from John Laing plc for £1. Laing's construction business had been making significant losses, in part due to additional costs on the Cardiff Millennium Stadium project. The name of the company was changed to Laing O'Rourke.

In 2004 the company acquired Crown House Engineering, a mechanical & electrical engineering business, and Expanded Piling Ltd from Carillion.

Laing O'Rourke went on to expand its operations in Australia in 2006 when it acquired Barclay Mowlem, also from Carillion.

On 11 January 2016 Laing O'Rourke announced that it had begun the formal sale process of selling its Australian business. This was a result of multiple unsolicited offers and a desire to invest more heavily in the company's loss making UK/ European Division, where it made a loss of £58m in 2015..

Chairman

Ray O'Rourke

Current Position

Laing O'Rourke is ranked No 9 in the Sunday Times Top 100 Private Companies in the UK, ranked by Revenue.

Given less favourable trading in recent years, and losses in the Europe Division prompting sale of the profitable Australian arm, it maybe that the O'Rourke family is interested in relinquishing control and majority ownership for the longer term. They have shied away from a Stock Market listing and all the Corporate compliance that goes with a listing. Ray is a self-made man, and will do with his company as he sees fit. A Foreign buyer could well be interested, particularly with Laing O'Rourke's prominent position on some major projects like Hinkley Point.

In 2014 the three shareholders behind Laing O'Rourke split a £20.5million payday as profits dipped. The company is thought to be owned by chairman Ray O'Rourke, brother Des and former director Bernard Dempsey. But the precise shareholding is obscure since it is owned by a network of offshore companies and trust structures. The dividend was the first payout its shareholders have received since 2012, when the company paid out £8.8million, and may indicate a change in personal motivations towards the future ownership. "Filling your Wellies" is an appropriate Construction Urban Dictionary saying to describe a very accomplished Irish Construction Entrepreneur and Company owner, who build his empire around the remnants of Laing Construction for which Ray O'Rourke paid £1.

The Sunday Times Top Track 100 league table of Britain's private companies, ranked by biggest sales, published 10 July 2016

* Supplied by company
† Annualised figure

Rank 2016	Rank 2015	Company	Activity	HQ location	Year end	Sales, £m	% annual sales growth	Ebitda, £m	Staff	Principal shareholders
1	1	**INEOS**	Chemicals manufacturer	UK/Switzerland	Dec 15	*18,070	0.5	*2,694	17,000	Jim Ratcliffe (60%), John Reece (20%), Andrew Currie (20%)
2	2	**Greenergy**	Fuel supplier	Central London	Apr 16	*13,672	-3.1	*52	637	Tesco Pension Trustees Ltd (35%), Owens family (32%), Seerave (24%)
3	3	**John Lewis Partnership**	Food and general retailer	Central London	Jan 16	9,749	2.2	784	90,700	Employees (100%)
4	4	**Swire**	Conglomerate	Central London	Dec 15	*7,238	4.5	*1,229	81,833	Swire family (67%), others (33%)
5	5	**Palmer and Harvey**	Wholesale distributor	East Sussex	Apr 15	4,466	6.4	35	4,330	Management and employees (54%), former employees (46%)
6	10	**Arnold Clark**	Car dealer	Glasgow	Dec 15	*3,354	2.2	*273	9,887	Clark family and trusts (100%)
7	8	**2 Sisters Food Group**	Food producer	Birmingham	Jul 15	3,140	-6.4	144	22,974	Baljinder and Ranjit Boparan (100%)
8	17	**Bestway Group**	Conglomerate	West London	Jun 15	*3,058	20.0	*485	23,324	Sir Anwar Pervez and family (70%), management (30%)
9	9	**Laing O'Rourke**	Engineering and construction group	Dartford	Mar 15	2,886	-13.3	85	15,088	Ray O'Rourke and Des O'Rourke through Suffolk Partners Corporation (100%)
10	12	**Virgin Atlantic**	Airline and tour operator	Crawley	Dec 15	2,782	-1.6	116	9,005	Virgin Group (51%), Delta Air Lines (49%)

Source: Sunday Times

Financial Performance.

Anna Stewart, CEO, has recently left the position, following some disappointing results. The Notes to the 2015 Accounts show extraordinary Contract Losses of £61m. The summary included her statement that "Our profit after tax, at £20.1 million on reduced managed revenue of £3.85 billion, is disappointing, albeit parts of the Group, such as the Australia Hub, have enjoyed a record year. Cash generation and management continues to be strong, with net cash of £370 million, while at the same time we are recognised as one of the industry's fairest employers and best payers."

A company to be admired, not least because of the achievements of its founder, but what holds for the future as the Principals age.

Laing has a great heritage, and Ray O'Rourke has rebuilt its strength as a Major UK Construction company. What he decides to do next will be telling.

BOUYGUES

Company Profile

Bouygues is a diversified industrial group whose corporate culture, shared by all of its subsidiaries, is distinguished by project management expertise and human resources management. The Group operates in over 100 countries and has a workforce of 120,254 employees.

Its main shareholders are foreign (37.3%). French shareholders control 20.9% of the Group, employees 21.4% and SCDM (a company controlled by Martin and Oliver Bouygues) represents 20.4% of total shares.

The Bouygues group operates in three sectors of activity: Construction, Media and Telecoms. Construction Bouygues Construction, Bouygues Immobilier and the listed subsidiary Colas represent the Bouygues Group's construction businesses.

Bouygues Construction designs, builds and operates structures including public and private buildings, transport infrastructure and energy and communication networks. Total sales grew by 3% to EUR 11,776 million, representing 36% of total Group sales. In line with 2014, the EBIT margin was 2.9% in 2015. In 2015 the order book stood at EUR 19.3 billion, 7% higher than in 2014, with international markets accounting for 58%.

As France's leading property developer, Bouygues Immobilier develops residential, commercial and retail park projects from thirty-five branches in France and three international subsidiaries. In 2015, total revenue fell by 17% to EUR 2,291 million.

Colas is a listed transport infrastructure company in which Bouygues holds an ownership interest of 96.6%. It operates in all areas of transport infrastructure construction and maintenance. It has two main operating divisions: Roads (its core business, which accounted for 81% of sales) and complementary Specialised Activities. In 2015, total revenue fell by 3% compared to 2014 and amounted to EUR 11,896 million, representing 37% of total Group sales. The main factor was the sharp contraction in the roads market in France. At December 2015, Colas' market value amounted to EUR 4,597million.

The order book at December 2015 stood at EUR 7 billion, 2% lower than in 2014. The order book reflects the trends observed over the last two years: growth in international activity together with contraction in the domestic market, since orders in international and French overseas markets were 4% higher at EUR 4.3 million, while orders in mainland France were 11% lower at EUR 2.7 million.

Bouygues UK operates under the Management Units; Construction, Housing and Thomas Vale, and its property development and regeneration company, Linkcity UK. In recent years, they have increased their presence in the UK through the acquisition of Warings, Thomas Vale, Leadbitter and Denne. These, together with existing operations, position Bouygues as a medium sized British player with a combined turnover of around £800 million, approximately 150 sites and 1500 people.

The four key UK building businesses of French contractor Bouygues however fell into the red in 2015 after being hit by challenging market conditions. Bouygues (UK) ran up the largest loss at £19.4m with regional builders Thomas Vale and Denne Construction each suffering losses over £12m and J B Leadbitter running up a £9m loss.

Bouygues building businesses

	Profit			Turnover		
	2015	2014	2013	2015	2014	2013
Bouygues (UK)	– £19.4m	£11.6m	£17.2m	£350m	£331m	£217m
Thomas Vale	– £12.5m	– £9.4m	£3.8m	£137m	£110m	£148m
Leadbitter	– £9.4m	– £1.8m	– £15.2m	£190m	£285m	£240m
Denne Construction	– £12.8m	£40,000	-£1m	£63m	£117m	£86m

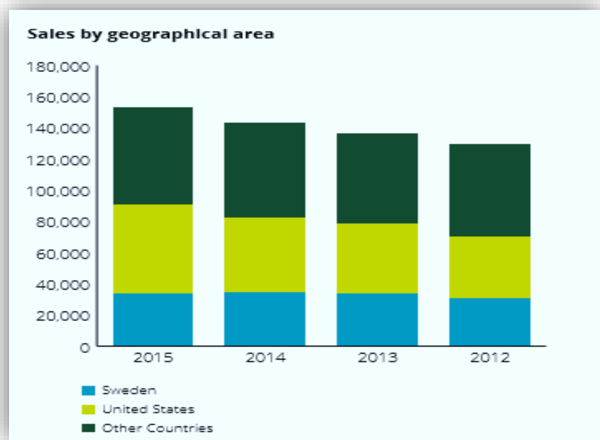
Source: Website

"Bouygues M&A- Because of the recent losses, it is less likely that Bouygues is currently seeking to acquire further in the UK, but it has the ability to do so, when it has the will to do so, with major infrastructure projects on the horizon across the UK in coming years."

The company has recently announced that it will be dropping the lead Brand Name of its building subsidiary Thomas Vale.

Bouygues UK

SKANSKA



Company Profile

Skanska is a well diversified company in terms of geographical spread. It is one of the world's leading project development and construction groups, with experience in construction, development of commercial properties and residential projects as well as public-private partnerships. The Group operates in 11 countries in the Nordic region, Europe and North America. With a workforce of approximately 43,000 employees, Skanska is the most important Swedish construction group in terms of revenue

Skanska UK

The design, construction, operation and maintenance of the UK's biggest hospital project, the £1 billion redevelopment of St Bartholomew's and The Royal London.

In joint venture, Skanska delivered the £1 billion widening of the M25, one of the world's busiest motorways, ahead of schedule in 2012. A £320 million design and construction contract to upgrade further sections was again completed early in 2014. We are also part of the team managing and maintaining the 440km of motorway until 2039.

With a value of more than £400 million, seven Crossrail contracts have been secured by a Costain Skanska joint venture since 2010, including Bond Street and Paddington stations.

Battersea Power Station Development – Skanska is delivering engineering services for phase one of this London mega project, and is preferred bidder for phase two, the prestigious power station development.

Water – Skanska is delivering long-term value for Thames Water, Welsh Water and Anglian Water, using collaborative working to create broad-based, innovative solutions that benefit consumers.

In the last 10 years, we've built, refurbished and extended over 40 schools in Bristol to deliver over 7,500 new primary places, and improved the learning environment for more than 13,600 secondary pupils.

New Papworth Hospital – part of a new biomedical campus in Cambridge, this cardiothoracic centre of excellence will provide 310 beds, seven operating theatres and five catheterisation labs, funded through a private-finance initiative.
The Monument Building in London and 66 Queen Square in Bristol are Skanska's first UK developments under our Workplaces by Skanska banner, bringing distinctive, high-quality and sustainable office and retail space to a competitive market.

Development areas in the UK

Infrastructure Development – Skanska finance projects, through design and construction, to facilities management.
Project Development – commercial property development from concept to market. Skanska UK is backed by the financial strength of Skanska AB in Sweden.

Future UK Strategy

"Skanska is well able to acquire a local contractor to bolster its UK presence. Likely target would be Costain with whom it has regularly joint ventured, and was a minority shareholder and potential acquirer in the 1990s / 2000s."

UK Results

Skanska UK's construction and development businesses recorded a consolidated operating income (profit) of £38.4 million in 2015 on revenues of £1,430 million. This equates to an operating margin of 2.7 per cent. During this period, £1,493 million of orders were booked by Skanska UK.

Mike Putnam, Skanska UK's President and CEO, said: "In a tough and extremely competitive environment, I am pleased to report a year of steady performance across the business."

During the year Skanska began work on a number of significant projects, including: the £140 million New Papworth Hospital in Cambridge, which will provide patients, staff and the local community with a world-class healthcare facility; three AMP6 (Asset Management Programme) projects for Thames Water, Welsh Water and Anglian Water, worth a total of around £454 million over five years; and a £32 million contract with Gloucestershire County Council to upgrade 55,000 streetlights across the county.

In December 2015, Skanska's Bristol development, 66 Queen Square, was handed over to new owner Aviva Investors, completing Skanska's first speculative commercial development under the Workplaces by Skanska banner.

Other projects successfully completed in 2015 include the £118 million London commercial development, One and Two New Ludgate for Land Securities and the £34 million extension to HMP Thameside, working with Serco. The company also delivered seven Bristol schools as part of its ongoing work for the city's local education partnership (LEP). 45 schools have been delivered in total since 2006 and, in December 2015, it was announced that the LEP had been awarded a five-year extension. Skanska was also a major sponsor of Bristol's year as European Green Capital in 2015, supporting and enabling sustainable living in the city and helping to create a lasting legacy.

The UK President is Mike Putnam.

ACS

Company Profile

Since its incorporation in 1983, the ACS Group has become a worldwide benchmark in the construction and services market, with a workforce of around 197,000 employees. ACS remains the second-largest European construction group in terms of revenue and the largest international contractor.

The Group's main shareholders are Spanish investors, Inversiones Vesan, a company owned by ACS´ Chairman and CEO with 12.5% and Corporación Financiera Alba owned 11.7% at December 2015

In the Construction Sector, the business was traditionally headed by Dragados until 2011, when the Group completed certain acquisitions. The integration of HOCHTIEF in 2011 matched the strategic objectives for the area, based on maintaining a leadership position in Spain through Dragados and Iridium, while consolidating and internationally expanding the Group through the German listed group. HOCHTIEF has a strong position in America through its subsidiaries Turner, Flatiron, Clark Builders and E.E. Cruz and in the Asia-Pacific area through the Cimic Group (formerly known as the Leighton Group)

Dragados UK

Already established since 1990 as a joint venture contractor in the UK, having won some prestigious contracts including Cross Rail, Bank Tube Station, Forth Bridge, and is preferred bidder on the Aberdeen Harbour £415m scheme.

Hochtief UK

With 25 years of experience in the UK market, Hochtief (UK) Construction is a fully owned subsidiary of Hochtief Solutions and reports directly to Hochtief Infrastructure (Europe).Involved inRoad and Rail infrastructure, Energy, Tunn elling and Civil and Structural Engineering.

Recent Performance

The UK arm of Hochtief saw profits slide as the cost of bidding for a slew of projects impacted on the business. Hochtief (UK) Construction saw pre-tax profits dive 45% to £918,000 as turnover also fell 11% to £130m. Added operational costs associated with bidding more work dented operating margins which slid to just 0.7% from 0.9% in the previous year.

Hochtief continued to increase its tender activities in line with its three year business plan helping to keep a strong forward order book of £160m, although this was down from £185m in 2014.
Finance director Christof Brixel, who joined in April 2015, said: "Largely due to the increase in tender activity, operational expenses have increased as a percentage of turnover from 4.7% in 2014 to 5.6% in 2015.

"ACS (Dragados/Hochtief) strategy for the UK seems to be for measured growth as the company expands its market base with clients such as Network Rail, Transport for London, Highways England, London Underground and HS2.The firm's head count is 246, and based on likely future Project awards, the company might well ramp up its plans for the UK. ACS with its financial strength, could conceivably acquire any of the Major 5 Players in the UK, to consolidate its UK position post Brexit."

Source: Annual report

History

Company Profile

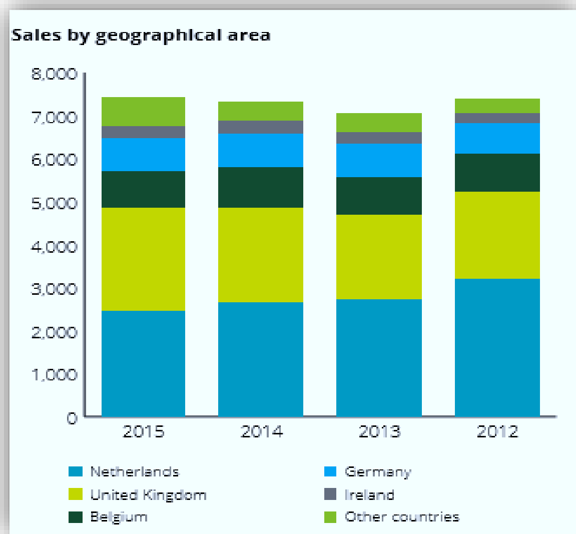
Royal BAM Group N.V. is a European construction group that unites operating companies in five home markets (the Netherlands, Belgium, the United Kingdom, Ireland and Germany) with the corporate centre in the Netherlands and is listed on Euronext Amsterdam. With approximately 21,500 employees, BAM is active in the construction, mechanical and electrical services, civil engineering, property and Public-Private Partnerships (PPP) sectors. The Group is also involved in specialised construction and civil engineering projects in niche markets worldwide.

The main shareholder is A. Van Herk, who controls 9.5%, followed by NN Group N.V. and I.M. Fares, which control 5.5% and 5% of the Company, respectively.

Company Key Figures

Key Data (EUR Million)	2015	2014	2013	Variation 2015-2014 %
Assets				
Non-current assets	1,507	1,469	1,632	2.6%
Current assets	3,345	3,487	3,685	(4.1%)
Total assets	4,852	4,956	5,316	(2.1%)
Liabilities and equity				
Equity	906	831	933	9.0%
Non-current liabilities	813	914	1,024	(11%)
Current liabilities	3,133	3,211	3,360	(2.4%)
Total liabilities and equity	4,852	4,956	5,316	(2.1%)
Statement of profit or loss				
Sales	7,423	7,314	7,042	1.5%
National sales	2,475	2,652	2,722	(6.7%)
International sales	4,948	4,662	4,320	6.1%
Construction sales	7,192	6,965	6,857	3.3%
Non-construction sales	231	349	185	(33.8%)
EBITDA	60	(22)	104	(372.9%)
EBIT	(11)	(105)	16	(89.8%)
Net income	11	(107)	47	(110.3%)
Net income attributable to the Group	10	(108)	46	(109.4%)
Other key data				
Net debt	(40)	40	383	(200%)
Order book	11,480	10,268	10,000	11.8%
Market capitalisation	1,387	698	1,019	98.7%

Geographical Spread



Source: Deloitte

BAM Nuttall UK

BAM Nuttall Limited (formerly known as Edmund Nuttall Limited) is a construction and civil engineering company headquartered in Camberley, United Kingdom. It has been involved in a portfolio of road, rail, nuclear, and other major projects worldwide.

History

In 1978 Nuttall was bought by Hollandsche Beton Groep (later HBG), a Dutch group, and in 2002 HBG was acquired by Royal BAM Group.

On 10 October 2008 Edmund Nuttall Limited changed its name to BAM Nuttall Limited.

Future

"BAM is already an established Civil Engineering Contractor in the UK. BAM (formerly HBG) also worked extensively with Costain and Carillion (formerly Tarmac) on heavy marine civil engineering projects in the UK like Conway Crossing and Thames Barrier. It is considered not highly likely, but not improbable, that BAM will seek another large acquisition as its M&A route to growth in the UK."

Company Profile

Amey plc, previously known as Amey Ltd and Amey Roadstone Construction, is a United Kingdom based infrastructure support service provider. It was once listed on the London Stock Exchange but since 2003 it has been a subsidiary of Spanish company Grupo Ferrovial, S.A..

Ferrovial Agroman is the division of the Ferrovial Group that carries out civil engineering, construction, water related and industrial projects. It has a consolidated presence in different markets such as the United States, Spain, Canada, the United Kingdom, Australia and Poland. Construction is the main activity of the Group due to its solid historical trend of growth and high profitability, but also because it is an excellent source for obtaining the required cash flows in the diversification and international expansion process. The construction order book amounted to EUR 8,731 million, with notable projects such as the Thames Tideway Tunnel in London.

Amey works for the public and regulated sectors in the UK, selling services including highways and rail management and maintenance, facilities management, waste collection and treatment provision of utilities services as well as consultancy services. Most of Amey's business is UK based; however it also operates in America, Australia and Qatar. Amey is involved in consultancy in the civil engineering industry with a wide range of design and asset management services offered. This includes structural design, civil infrastructure, transport systems and asset management services

Amey is a well established name and business in the UK, and has been involved in many joint ventures with other British Contractors. With its parent ownership, Amey is able to acquire to grow in the UK should it desire to do so

"Ferrovial has Amey well established in the UK, and is itself heavily invested in UK infrastructure concessions, particularly airports. despite the construction of the third runway at London Heathrow, it is considered unlikely, but not impossible, for Ferrovial to make a large construction company acquisition."

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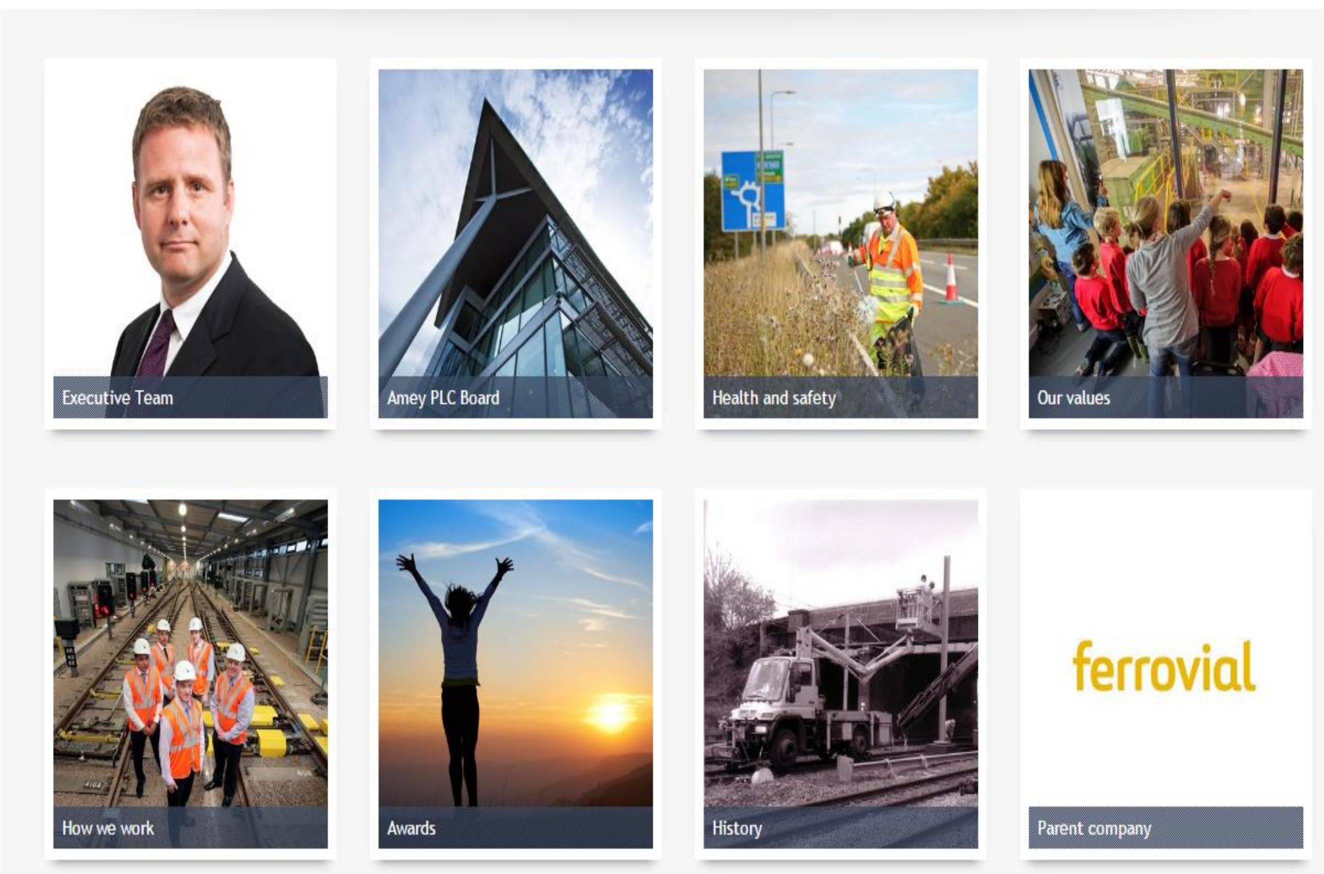
Website



Dreams

**"So far, the only dreams I've achieved
Have been nightmares."**

CHAPTER 4

RECENT & HISTORIC M & A ACTIVITY

OVERVIEW:

The Industry's M&A History since the 1970's has been typically the largest Construction Groups adding bolt-on Asset Based businesses to the organic growth of their Contracting Empires, typically in housing and property. Trafalgar House was more of an Acquisitive Conglomerate, but by the 1980's most Groups had diversified Construction Portfolios. But they were not diversified enough to weather the recession and over-capacity in the Industry when the economy went into free fall in 1990. Many companies and well-known names faltered (eg. Laing Construction, Alfred McAlpine); some continued to build market share and expand through M&A (eg Balfour Beatty buying up geographically based Contractors- Birse, Cowlin & Centex in US); while some re-invented themselves with changes in business mix (eg. Amec selling its General Contracting Business to Morgan Sindall to re-focus on building an Engineering Business by M&A; and Tarmac and Wimpey swapping assets in Housing, Construction and Quarries/Minerals).

The significance of 2007 is researched in detail, company by company in Appendix IV. There was a cash crisis in some companies who were over-valuing work-in-progress when the crash hit. M&A activity distorted companies' financial profiles rather than enhancing them.

Recent M&A, for example in the Design Consultancy sector, has been more strategically motivated by large North American predators buying the large UK Multi-discipline practices (eg. Scott Wilson, Halcrow). American companies account for the Goodwill paid for low asset backed businesses far more conservatively than UK Groups who attract scepticism for holding 'Intangible Assets' on the Balance Sheet after purchases.

The next wave of M&A for the UK Construction Industry should also be strategy led to achieve Consolidation. Larger Groups which emerge will be better placed to take on the large European Majors.

CHAPTER CONTENTS:

- M&A HISTORY IN UK CONSTRUCTION 1970-2007
- CHANGES AT THE TOP 1996-2016
- FOCUS ON SIGNIFICANCE OF 2007 CRASH
- POST 2007 M&A IN UK CONSTRUCTION

  -VIEWS ON BIGGEST POST-CRASH M&A DEALS IN UK CONSTRUCTION
  -OTHER RECENT M&A DEALS IN U

Company Politics

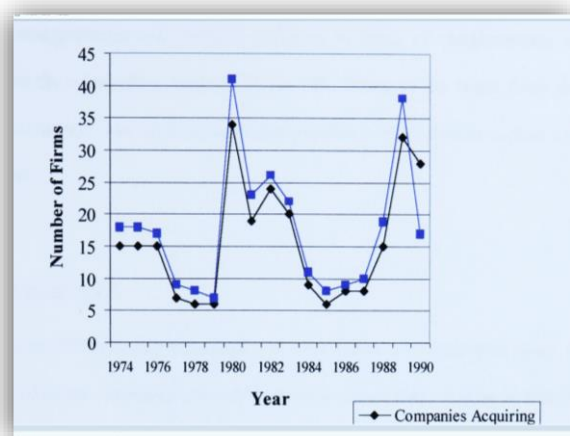
"He's had more success in the rat race than the human race."

CHAPTER 4

RECENT & HISTORIC M & A ACTIVITY

THE M&A HISTORY IN UK CONSTRUCTION 1970- 2007

Merger & Acquisition Activity 1974-1990.



Source: Financial Analysis ME Database

The 1970s-1990s were years of traditional contracting, when the larger construction companies as Trafalgar House, Tarmac, Wimpey, Laing, Mowlem, Taylor Woodrow were building diversified construction groups involved in contracting, housing, property, quarry and building materials, industrial products, plant hire and international business. Trafalgar House had acquired Cementation and Trollope & Colls (1969), and was a diversified conglomerate involved in diverse businesses such as shipping (Cunard). Bovis also was part of the P&O shipping to property conglomerate. Housing inflation had allowed the large house builders like Wimpey and Tarmac to make significant profit margins, but with short but substantial land banks, became vulnerable to the unexpected downturn/crash in the housing and property market in 1990.

M&A activity in the period 1974-1990 was relatively moderate and tended to follow the cyclical trends in the overall economy and construction market. A number of economic and structural changes took place afterwards, during the 1990s, that had a profound impact on the UK construction industry. The recession in the early 1990s led to over-capacity, and too many firms were chasing too few contracts. This led to practices such as bidding below costs and transferring risks to sub-contractors in an effort to stay in business. Also a claims culture meant final contract completion costs on Government projects were sometimes 20% higher than tendered prices. In fact, chasing cash from clients and delaying payments to sub-contractors and suppliers became the norm. Contractors were making more money from interest on their cash piles than they were from operating margins.

Interest rates were as high as 12%, and the larger contractors had as much as £100m of cash and negative working capital. It became a dangerous game as Design and Build and DBFO and PFI started to change the cash profile of projects. Also publications of reports such as Latham (1994) and Egan (1998) caused a critical examination of the state of the industry and its adversarial form.

Based on these two reports, a number of initiatives, supported by the UK Government, were set up to improve the image and performance of the industry. Latham promoted new forms of procurement such as New Engineering Contracts (NEC) and partnering with long term strategic alliances to bring benefit to all stakeholders. This for example revolutionised the water industry capital spend over various Asset Management Programs (AMPs). Partnering did help eliminate adversarial relationships, and encouraged commitment to continuous improvement.

The Reading University Construction Forum 1991 (of which the Author was a member) produced an industry wide view of the future in *Building 2001*. Simultaneously the Government started promoting the Private Finance Initiative (PFI), so even the top contractors were forced to adopt long-term strategic planning and create alliances with funding organisations to embrace this new business line.

Summary of Mergers & Acquisitions in UK

	Transactions By UK Companies	Transactions in the UK by overseas companies
Years	Value £million	Value £million
1992	13 205	4 139
1993	16 276	5 187
1994	23 433	5 213
1995	44 567	12 817
1996	44 119	9 513
1997	46 005	15 717
1998	84 442	32 413
1999	137 356	60 860
2000	285 671	63 990

Source: National Statistics

By the mid1990s there were numerous changes in companies and their portfolios. Laing had faltered (mainly due to low margin contracts going into recession and £60m losses on the Millennium Stadium Project in Cardiff) and sold its contracting empire to Ray O'Rourke for £1. Amec was also disenchanted with its contracting interests and eventually sold them to Morgan Sindall in 2007. Morgan Sindall had bought Lovell Partnerships for £15m from the financially stretched Lovell Group in 1998. Costain had never recovered from a disastrous deep coal mine investment in USA, and had re-trenched to its former contracting interests, selling most other businesses to survive, and enjoying the support from three overseas white knights from Kuwait, Bahrain and Malaysia. Lovell, as well as Balfour Beatty, Amec, Raine and Trafalgar House divested their housing businesses. The end of the 1990s recession and the changing structure of the industry had organisations revising their corporate strategies, often with a need to restructure and re-focus on particular types of work. Laing retained its interests in property and investments in infrastructure.

Taylor Woodrow abandoned speculative work, and had narrowly escaped an acquisition interest by P&O in 1988, who sought the Jewel in Taywood's Crown, at that time- its undervalued property portfolio, especially St Catherine's Dock in London, which was valued at £300m+ alone, more than the market capitalisation of the Group. Tarmac undertook an asset swap with Wimpey (discussed below) and subsequently de-merged its aggregates and construction businesses in 1996.

In March 1996 the largest asset swap in the history of the UK construction industry took place. Tarmac divested its Housing Division whilst Wimpey took the decision to concentrate on Housing and Land Development and divest its Minerals and Construction businesses. In the same month Kvearner acquired Trafalgar House for £904m. For twenty years Trafalgar House had continued to expand under Sir Nigel Broakes leadership. Acquisitions played a major role. In construction and engineering these included – Cementation, John Brown Engineering, Cleveland Bridge and Redpath Dorman & Long. House building saw the acquisition of two top-ten House Builders, Comben Homes and Broseley Homes.

Trafalgar's property development had led to the purchase of hotels but the high-profile acquisition was of the Ritz Hotel in 1976. Trafalgar also entered fields that were far removed from its original property development and construction roots with the purchase of Cunard in 1971 and Beaverbrook's Express Newspapers in 1976. But Kvearner's ownership of Trafalgar was short lived , and was itself acquired by Skanska in 2000.

Many of the Big Names in the industry were faltering during this period, or changing face. M&A played a major role in most of the changes and restructuring. There was other M&A activity and changes in the years 1996 through 2000, some are given below.

Other Acquisitions

Company	Date	Acquired By
Higgs & Hill	1996	HBG (NL)
Wiltshire Construction	1996	Ballast Nedam (NL)
Trafalgar House	1996	Kvaerner (N)
Raine	1997	Alfred McAlpine (UK)
Allot & Lomax	1999	Babtie Group (UK)
Bovis	1999	Lend Lease (Australia)
Try	2000	Galliford (UK)
AGRA (Canada)	2000	AMEC (UK)
Flack Kurtz Group (US)	2000	WSP (UK)
Kvaerner	2000	Skanska (Sweden)
Birch	2000	Miller Group (UK)
Morrison Construction	2000	Anglian Water Group (UK)

Source: Internet Research

Some of the changes of that era can be summarised in the comparisons of Company Status 1989-1999.

Beazer had also become just a house builder with sale of its ill-fated aggregates business to Hanson and Hanson's onward sale via MBO Kier Construction to Colin Buzby and John Dodd's management team. Beazer had purchased Koppers Aggregates in the USA, with a highly leveraged $2bn dollar denominated leveraged deal that led to the demise of Beazer in similar form as befell Freddie Laker, who exposed his business to debt and FOREX exposure without sufficient hedging or foreign currency earning capacity.

Changes in Top 5 (1989-1999)

1989	1999	Company	Status
1	2	Tarmac	No longer a contractor following a demerger to form Carillion
2	9	Trafalgar House	No longer exists. Acquired by Kvaerner in 1996 and again in 2000 by Skanska
3	-	Wimpey	No longer a contractor. Focus on house building.
4	4	Balfour Beatty	Moved away from competitive contracts to PFI, rail maintenance and other service sector work
5	5	Laing	No longer a contractor; focusing on house building, property and investments

Source: Research

Taylor Woodrow Construction eventually went on to be acquired by Vinci after it was considered non-core to the merged housing group of Taylor Wimpey. Wimpey had quickly realised that its enlarged Housing business after the Tarmac Asset Swap, was too vulnerable to economic cycles, and debt servicing. Bovis went on to be acquired by Lend Lease with itrs focus on construction management. Bovis had enjoyed an unprecedented decade of success as the lead management fee contractor in the property boom years in London after the deregulation of the Stock Exchange (Big Bang) in 1986.

Costain had struggled on, backed for a time by Skanska as a shareholder and joint venture partner, until they sold their interests in 2000. It survived through several Rights Issues and company restructurings, but never regained its position as a tier 1 Major Construction Group.

Amec was an enigma and had become the UK's largest construction company, but was already focusing on service work and PFI, until it escaped its problems eventually by divesting its contracting businesses to Morgan Sindall.

Following that deal Amec went on to become what it is today, a focused supplier of consultancy, engineering and project management services in the world's oil and gas, mining, clean energy, environment and infrastructure markets, and recently merged with Foster Wheeler..

Amec has acquired a number of companies, on-route whose skills, expertise and geographical spread have strengthened the radical new strategic direction for the Group. Amec has been a true industry and managerial success story, since that time, based almost entirely on a shrewd M&A strategy.

So Amec's disappearance from the Rankings below, should be viewed with positive scepticism. No doubt several of the large UK incumbent contractors today might change their business mix for that of a global EPC in the broad Engineering Sectors.

The Changes in the Construction Sector and Major Players is well illustrated in the comparative Ranking Tables below:

CHANGES IN TOP 25 CONSTRUCTION RANKINGS (1996-2006)

Top 25 Contractors/ House Builders 1996

Rank by T/O	Company	Turnover £m
1	Amec	£2,176
2	Bovis (P&O)	£1,777
3	Trafalger House (Kvaerner)	£1,712
4	Balfour Beatty	£3,003
5	Wimpey	£2,513
6	Tarmac	£2,286
7	John Mowlem	£2,284
8	John Laing	£1,933
9	Taylor Woodrow	£1,621
10	Costain	£1,296
11	Alfred McAlpine	£1,229
12	Babcock	£1,227
13	Kier	£1,208
14	**Barratt**	**£1,178**
15	**Bryant**	**£1,147**
16	Raine	£1,110
17	Tilbury Douglas	£1,069
18	**Beazer Homes**	**£1,040**
19	Higgs & Hill	£1,038
20	Newarthill (Sir Robert McAlpine)	£972
21	Miller Group	£935
22	Shepherd Building	£892
23	Birse	£836
24	**Crest Nicholson**	**£808**
25	YJ Lovell	£781

Total turnover - £22,007
Industry output - £52,643
Top 25 turnover/Industry output - 0.42

Top 25 Contractor/ House Builders 2006

Rank by T/O	Company	Turnover £m
1	Balfour Beatty	£4,938
2	Taylor Woodrow	£3,556
3	Amec	£3,065
4	**George Wimpey**	**£3,003**
5	**Barrett**	**£2,513**
6	**Persimmon**	**£2,286**
7	Carillion	£2,284
8	Laing O'Rourke	£1,933
9	Kier	£1,621
10	Morgan Sindall	£1,296
11	Interserve	£1,229
12	HBG UK/Nuttall	£1,227
13	Amey uk plc	£1,208
14	**Bellway**	**£1,178**
15	**Berkeley Group**	**£1,147**
16	Newarthill (Sir Robert McAlpine)	£1,110
17	**Wilson Bowden**	**£1,069**
18	Bovis Lend Lease	£1,040
19	Alfred McAlpine	£1,038
20	Vinci/Ringway	£972
21	Mitie	£935
22	Miller Group	£892
23	Babcock	£836
24	Skanska	£808
25	**Redrow**	**£781**

Total turnover - £41,960
Industry output - £107,006
Top 25 turnover/Industry output - 0.39

Source: CN

FOCUS ON SIGNIFICANCE OF 2007/2008 CRASH

(M&A Continues While There Is A Cash Crisis In The Industry)
(Please Refer to Appendix III.)

Acquisitions in the Industry continued through 2006-2008

Seller	Company Sold	Buyer	Size (£m)	Year	Comment
Accord	Accord	Enterprise	undisclosed	2007	Maintenance/Highways
Cowlin Group	Cowlin	Balfour Beatty	52	2007	Regional Builder S West
Jabez Holdings	Jabez	MITIE	36	2007	Maintenance Business
Keep Moat	Keep Moat	HBOS / MBO	800	2007	Large Social Housing Bldr
International Nuclears Solns	International Nuclears Solns	Babcock Intln	39	2007	Nuclear Solutions Specialist
Crest Nicholson	Crest Nicholson	Castle Bidco	710	2007	General Contractor
Nukem	Nukem	Vinci	120	2007	Nuclear Services Provider
Sol	Sol Construction	Rok	19	2007	Midlands Regional Builder
Enterprise	Enterprise	3i	387	2007	£600m T/O Maintenance Compa
Barkbury Holdings	SOL Construction	ROK	21	2007	Midlands Regional Builder
Plc Merger	Wimpey	Taylor Woodrow	4,700	2007	UK No. 1 House Builder
Centex Inc	Centex (USA)	Balfour Beatty	184	2007	US$2.2bn T/O House Builder
Amec Plc	Amec Contrcg	Morgan Sindall	26	2007	£720m T/O Civils & Urban Dev
Linden Holdings	Linden Holdings	Galliford Try	109	2007	£280m T/O Urban House Bldr
McNicholas Plc	McNicholas Plc	Skanska UK	50	2006	£170m T/O Utilities Contractor
Carillion Plc	Barclay Mowlem	Laing O'Rourke	30	2006	£400m Australian Contractor
Mowlem Plc	Mowlem Plc	Carillion Plc	350	2006	£1.6bn UK PFI/Gen Contractor
AWG Plc	Morrison Constrn	Galliford Try	42	2006	£340m UK Regional Civils
Birse Plc	Birse	Balfour Beatty	32	2006	£330m UK General / Civils
Various	Tullock & Kingfisher	ROK	50	2006	Mids Social Hsg + Scottish Bldr
Gleeson Plc	Gleeson MCL Rail	Morgan Sindall	23	2006	Rail Infrastr Div of Gleeson
Gleeson Plc	Gleeson MCL Ltd	Black & Veatch	19	2006	Property & Constn Gleeson

Source; Annual Reports

Note: Of the Top 10 Companies trading in 1996, only Balfour Beatty and Costain had maintained their business until 2006, in the same form and ownership structure. All other Groups were involved in some Industry Changing M&A of the time.

Notable M&A (2005-2007)

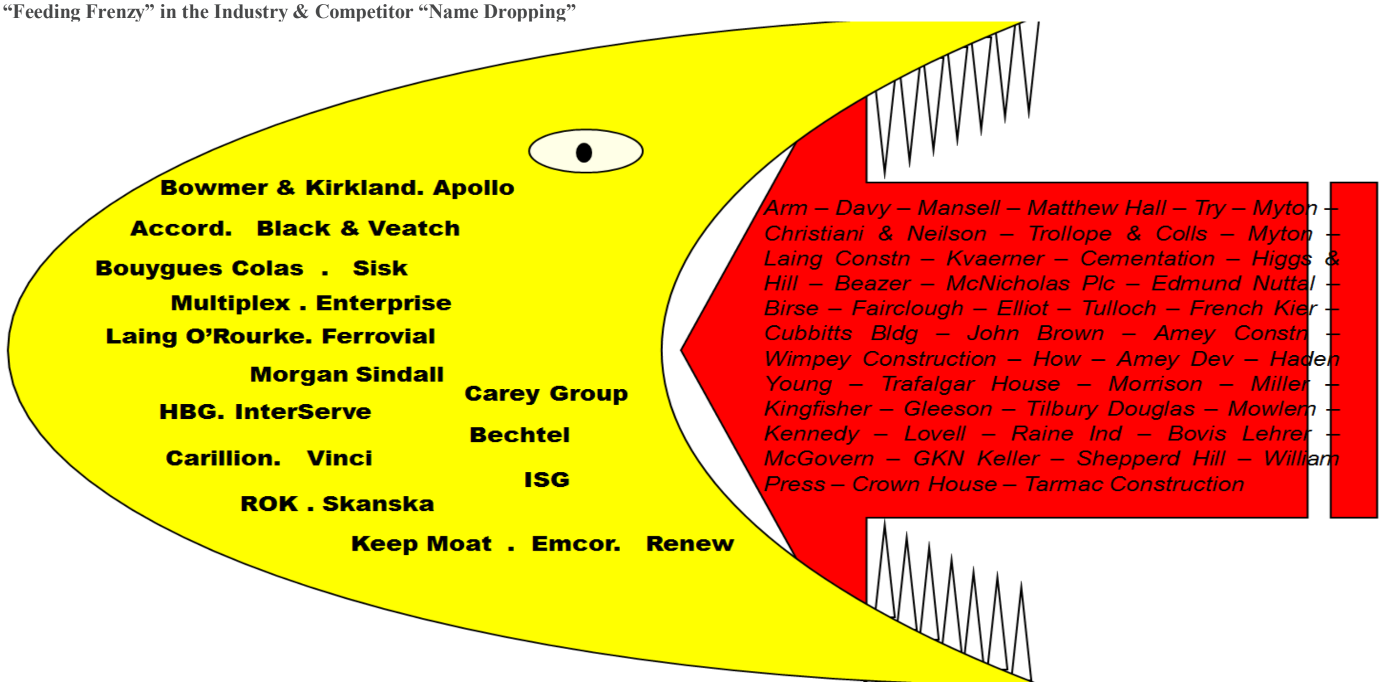
Date	Target Company	Bidder Company	Enterprise Value (£m)	Comments
24-Mar-06	Gleeson (rail)	Morgan Sindall	23.3	Positioning to take advantage of investment programme in London's road, rail and underground networks.
				Gleeson Building was subject to a management buy-out in August 2005.
02-Mar-06	Morrison	Galliford Try	23.3	Adds to the scale and coverage of Galliford's construction business.
Feb-06	Chartdale Homes	Galliford Try	67.0	Provides further housing completions and landbank in the east of England.
14-Dec-05	Senator Homes	Persimmon	25.0	Provides further housing completions and landbank.
07-Dec-05	Mowlem Plc	Carillion	388.6	Major acquisition demonstrating further consolidation in the sector. Creates significant construction and support services company.
Sep-05	Fairclough Homes	Miller	264.0	Provides further housing completions and landbank in Cumbria and Scottish borders.
28-Sep-05	Propencity Group	Interior Services Group	15.5	Propencity are a Construction Group that increases Interior's coverage outside of London.
23-Nov-05	Westbury Homes	Persimmon	643.0	Further consolidation in the sector. At the time made Persimmon largest UK house builder.
May-05	Durose & Gourlay	Rok	11.0	D&G provide planned maintenance services. Rationale as before.
May-05	Jennings Group	David McLean	38.5	Provides further housing completions and landbank in the Midlands.
07-Apr-05	Game Nucleaire SAS	Amec	14.3	French nuclear engineering company. Adds to Amec's nuclear offering.
31-Jan-05	Jarvis one-third share of Tubelines	Amey	146.8	Additional to Amey's existing shareholding along with Bechtel.
20-Jan-05	Paragon	Amec	20.0	Paragon are Houston based oil and gas engineering services company. Supplementary to Amec's existing oil and gas business.

Source: Annual reports

Date	Target Company	Bidder Company	Enterprise Value (£m)	Comments
On going	--	Taylor Woodrow/Wimpey (Merger)	-	Significant consolidation evident in the Sector. Merger will create UK's largest house builder.
04-Jun-07	Amec Developments	Morgan Sindall	47.0	Amec Developments are a mixed-use urban regeneration business. Adds to MS scale and capability in its Affordable Housing Division.
16-May-07	Nukem	Freysinnet SAS	circa 120.0	Part of Vinci, Freysinnet is a nuclear services provider company. Acquisition of Nukem adds to range of products and services.
03-May-07	Sol Construction	Rok	19.0	Sol are a Midlands based building and maintenance company. Roks ambition is to have in-house capability across the UK.
27-Apr-07	Enterprise	3i	562.0	3i see secure profits and excellent growth prospects.
02-Apr-07	Centex Construction	Balfour Beatty	184.0	Centex are a US building company. Provides BB with potential to grow in it's target building and investment markets in the US.
08-Feb-07	Linden Holdings	Galliford Try	245.0	Gives Galliford increased housing completions and landbank particularly in urban regeneration in Southern England.
05-Jan-07	Exeter Airport	Balfour Beatty	60.0	Synergy with BB who have 23 infrastructure PFI projects and strong capability in airport infrastructure development.
08-Dec-06	McNicholas Plc	Skanska AB	50.0	Doubles Skanska's turnover in the UK and expands utilities and infrastructure services business.
19-Oct-06	Gleeson (water)	Black & Veitch	36.0	Doubles the size of B&V operations in water in the UK.
03-Oct-06	Tulloch Construction	Rok	31.3	Tulloch are a Scottish construction company. Rationale as above.
03-Oct-06	Barclay Mowlem	Laing O'Rourke	30.0	BM are an Australian construction company. Provides O'Rourke with strategic hub in Australia.
01-Sep-06	Wideacre Limited	Inspace	57.8	Bought from Willmot Dixon. Widacre builds, repairs and maintains social housing. Adds to Inspace offering.
20-Jul-06	Madellan	Interserve	126.0	Adds to Interserve support services capability particularly in the private sector.
26-Jun-06	Birse Group	Balfour Beatty	32.0	Further consolidation in construction sector. Adds to BB civil engineering capability in the UK.

Post 2007 Global Economic crash, M&A in Construction fell, as did overall M&A activity. More recently there has been a revival in deals, and some major moves in the Construction and Engineering Sectors of late have already been referenced in the Report. These include the pairings of AECOM-URS/Scott Wilson, WSP-Parsons Brinckerhoff, CH2MHill-Halcrow, Arcadis-Hyder, Ramboll – Environ, and Amec- Foster Wheeler, all competing to be top global Engineering Consultancy or EPC companies

A "Feeding Frenzy" in the Industry & Competitor "Name Dropping"



VIEWS ON BIGGEST POST-CRASH M&A DEALS IN UK CONSTRUCTION SECTOR

Building undertook a review of four of the sector's biggest deals of the last decade and solicited the opinions of two Industry Analysts to judge how the Mergers and Acquisitions had fared.

Kevin Cammack and Tony Williams

Sourced from: Building.co.uk

BALFOUR BEATTY-PARSONS BRINCKERHOFF

COMBINED TURNOVER PRE-MERGER*: £8.9bn (2008)
COMBINED OPERATING PROFIT PRE-DEAL: £222m (2008)
PRICE OF THE DEAL: £380m
COMBINED TURNOVER POST-MERGER*: £10.3bn (2010)
OPERATING PROFIT POST-DEAL: £207m (2010)

Sir David John, previous Chairman of Balfour Beatty, said in 2007 that the acquisition of Centex in the USA, which had gone so smoothly, made him consider that Balfour Beatty could do very little wrong in M&A terms. Soon after the company had become the first contractor to enter the FTSE 100 in 15 years, and it announced the acquisition of US consulting engineer Parsons Brinckerhoff. The acquisition entrenched the company's pole position among UK contractors, while its declared strategy to diversify into a global construction and professional services company made sense to analysts. Balfour's decision to keep Parsons Brinckerhoff as a distinct brand within the enlarged group meant that cost savings were not the key driver behind this acquisition. Balfour said it wanted to be able to offer a broader range of services and a stronger presence in the US, which it would have been hard pressed to build itself. Despite Balfour's recent woes, Parsons had continued to perform well, which meant there were raised eyebrows when the US subsidiary was put up for sale. Despite the need for cash, it is a fact that the marriage between contractor and design consultant has always been fraught with cultural difficulties. The tie up in the USA between Raytheon and Badger, which ended in tears, is cited as just one example. Kier's recent decision to sell Mouchel after a short marriage, maybe another example. Analyst Tony Williams of Building Value likened the sale of PB, for which BB had paid £380m, to "selling the crown jewels."

GEORGE WIMPEY-TAYLOR WOODROW

COMBINED TURNOVER PRE-MERGER*: £6.6bn (2006)
COMBINED OPERATING PROFIT PRE-DEAL: £887m (2006)
PRICE OF THE DEAL: £5bn
COMBINED TURNOVER POST-MERGER*: £6.8bn (2007)
OPERATING PROFIT POST-DEAL: £823m (2007)

The housebuilding sector was already in a fever following Barratt's takeover of Wilson Bowden when George Wimpey and Taylor Woodrow announced plans in March 2007 to create the UK's largest housebuilder. But the mega deal quickly turned sour as the newly merged company was forced to announce a £61m hit as a result of the crash in the US housing market, to which Wimpey and Taywood had both been heavily exposed. It was made clear to Wimpey management that the Wimpey-Tarmac Asset Swap would expose the Group to the UK Economic Cycle and its dangers if debt levels rose too much at times of land bank write-downs. Things got worse during the following year as Taylor Wimpey's share price plunged to 4p.

The company was only saved from collapse after it secured a £1.5bn refinancing deal from its banks. The relatively straightforward nature of housebuilding mergers delivered "efficiencies" in the form of 700 job losses and the closure of four offices, including Taywood's Solihull headquarters. And on the back of the wider housing market revival, Taylor Wimpey has returned to financial health. However, the combined entity is still building fewer homes than its parent companies were producing in the mid-2000s, suggesting that mergers in this sector have a wider social cost. It could be suggested that it reduces competition in the market place.

So was the deal value for money? A big no, according to Cammack, but when you're doing even a nil-premium £5bn merger off a highly geared balance sheet in a highly cyclical industry barely months before the top of the market in 2007, it's the timing that kills, not the concept or the integration or operational ability. Before a year was out the housing market had crashed and the TW share price had sunk below 10p (option money on its survival) from a post-merger high of 385p. A rescue rights issue (raising £510m) and £595m sale of its combined US housing businesses later, TW was able to stagger through to recovery. Since then under the stewardship of Pete Redfern, TW has more than held its own; profits and its net return on invested capital (ROIC) exceeded the pro-forma leves pre-merger. So managerially and operationally a success, but maybe not value for money/shareholder value creation.

The argument for maintaining a diversified Contracting/ Housing Business Portfolio with complementary cash generation and investment requirements, may well become compelling once more to corporate strategy makers, now the housing outlook is so favourable.

CARILLION- ALFRED MCALPINE

COMBINED TURNOVER PRE-MERGER*: £4.7bn (2007)
COMBINED OPERATING PROFIT PRE-DEAL: £43m (2007)
PRICE OF THE DEAL: £572m
COMBINED TURNOVER POST-MERGER*: £5.2bn (2009)
OPERATING PROFIT POST-DEAL: £63m (2009)

Carillion showed that it meant business about expansion in 2007. After its overtures to the Alfred McAlpine board were rebuffed, it launched the sector's first hostile takeover bid in years for its rival. At the time, analysts were sniffy about the deal, a scepticism grounded in the larger company's troubled takeover of Mowlem. Despite the exodus of a string of senior staff, McAlpine proved easier to swallow, with savings exceeding the original estimates presented to shareholders.

Carillion's cost savings reached £40m a year by the end of 2009, £10m more than anticipated. Building rated the Carillion/Alfred McAlpine tie-up as one of the five most successful deals of the noughties in its end-of-decade review,- and it has given Carillion a stronger presence in support services and civils

Cammack described Carillion's purchases of Mowlem and EAGA as miserable from a shareholder return perspective. He rated the McAlpine buy as "not unsuccessful". The jewel in the crown was considered to be definitely Stiell which afforded a strong presence in FM /business services (financial sector) ahead of maybe the utilities maintenance business while Carillion was certainly able to extract full cost synergies (over £40m in the end) after its experiences with Mowlem. However, for £572m it is debatable whether this was a value for money transaction on a ROIC basis especially as by 2010 it was downsizing the group's core construction business.

GENIVAR- WSP

- **PRICE OF THE DEAL: £278m**

Genivar had agreed to buy WSP at a knock-down price in June 2012 (435 pence/£278m). It then changed its name to that of the target and since the deal closed (01/08/12), the share price of the new WSP (aka Genivar) has risen 70%.

The 2012 tie-up between WSP and Canadian engineer Genivar reflected the change in the terms of trade between Canada and its former colonial master. While Genivar was less than two-thirds the size of WSP in terms of staff numbers and turnover, the Canadian company had a market value of £516m - more than three times that of WSP's £166m at the time. WSP chairman Chris Cole was candid that it made sense to tie his firm to what he described as the "powerhouse" Canadian economy - one of the few bright spots in the largely depressed developed world at the time. And this a rare takeover that felt like a meeting of equals. WSP's wider global presence means that the combined firm, while headquartered in Canada, has taken the UK company's brand and Cole remained chairman of the combined company. WSP has since acquired Parsons Brinkerhoff from Balfour Beatty to leap-frog the firm into the heights of the Global Rankings.

OTHER RECENT M&A DEALS IN UK

Acquisition of Miller Construction.

In July 2014 Galliford Try PLC announced the acquisition of the Miller Construction business from Miller Group Holdings (UK) Limited for a total price of £16.57 million.

Miller Construction delivers building and infrastructure projects to both the public and private sectors. In the year to 31 December 2013, Miller Construction reported revenue of £409 million.

Said to have been a tactical acquisition of Miller Construction, consistent with Galliford Try's strategy of focus on developing its positions on regional and national frameworks. The transaction accelerated the growth in construction turnover towards £1.25bn, and increased its 2018 target to circa £1.5bn.

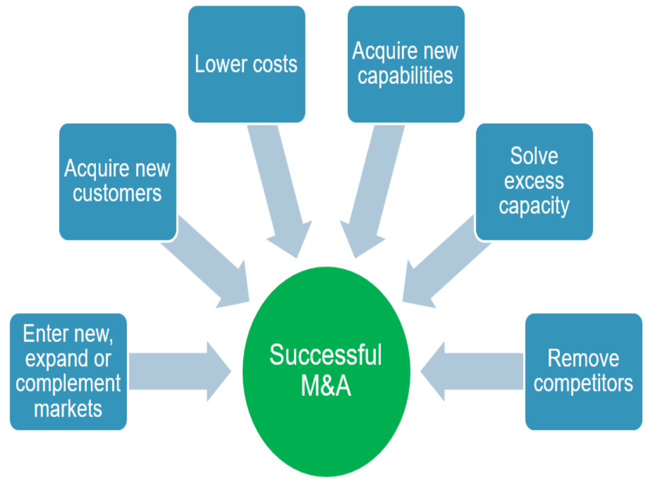
Acquisition of May Guerney

On July 8th 2013, Kier completed the takeover of May Gurney, in a deal worth around 221 million. The deal saw May Gurneys staff, operations and assets merged into the Kier Group portfolio, with the combined company offering services including waste collection, highways maintenance and construction. May Gurney rebranded as Kier Services. The two firms had to attempt the process of merging their operations, with May Gurneys 6,000 staff joining Kier Groups existing 10,000-strong workforce. The deal allowed Kier to expand its operations in the waste sector, with May Gurney holding around 20 council waste collection contracts nationwide.

May Gurneys board agreed to the terms of the takeover by Kier in April, having previously accepted a rival bid from engineering firm Costain, worth around £177 million. Costain later withdrew its bid, stating that a merger would not be in the best interests of its shareholders. Costain's ultimately abandoned bid cost its Group in excess of £3m in associated costs and fees, and was another blow to Andrew Wyllie's acquisition ambitions, after failing to persuade Costain's Board to consider a bid for Taylor Woodrow Construction.

Post-Acquisition- Kier has downgraded the fair value of the assets it acquired in the May Gurney takeover by £45m. The firm said the downgrade was driven by its revaluation of long-term loss-making waste disposal contracts. The value of May Gurney on Kier's balance sheet remains £222m, but a larger portion of this is now listed as goodwill than at the time of the takeover in June 2013. Goodwill now comprises £192m of May Gurney's value, up from £147m it estimated in September 2013.

"Whether this acquisition can be deemed a success, time will only tell."



Acquisition of ISG.

United States-based investment group Cathexis claimed victory in its takeover battle for control of international construction services group ISG in March 2016.

Although ISG initially said the improved offer, worth around £84.6milllion, still undervalued the business it later recommended shareholders to accept, saying that the substantial minority stake built up by Cathexis, of around 48%, would make it difficult for the remaining shareholders to exercise control even in the event of the offer lapsing.

Cathexis, which is based in Houston, Texas, has been a significant shareholder in ISG since 2012 and was the largest investor (29%) in a round of fundraising undertaken by ISG in March 2015.

ISG provides fit-out, refurbishment, engineering, design and project management services for clients world-wide and last year reported revenues of £1.6billion. Its Ipswich business was originally part of the Jackson Group of companies built up by Ipswich businessman Frank Jackson, who died in 2004, and began in 1960 as FJ Construction when building activities where split off from the civil engineering business Roadworks, which Mr Jackson had formed in 1952. FJ Construction was later renamed Jackson Building and then, following its acquisition, ISG Jackson, before the name of its founder was dropped in 2011 as part of a group-wide rebranding. Roadworks was later renamed Jackson Civil Engineering and, having become a separate business through a management buy-out in 2004, it continues to operate under this identity, now being part of Suffolk-based One Group Construction.

ISG may have conceded defeat in takeover battle by US Investor Cathexis, but the US Firm is likely to refocus ISG on its core fit-out business only before attempting to sell it on for a profit within 5 years when market fundamentals and appetite for acquisitions are expected to be strong. So ISG may become another acquisition target.

Acquisition of Mouchel

Kier acquired Mouchel in April 2015, in a £265m deal with the aim of creating a dominant force to look after Britain's highways. Kier funded the acquisition with a £340m fully underwritten rights issue. This paid for the purchase and associated costs as well as helping pay down £40m of Mouchel's debt.

The deal was expected to deliver a 15pc return on capital invested in the year ending June 2017. Annual synergies of £10m a year were also expected by 2017. The deal represented the final stage of a long road to recovery for Mouchel, which went into administration in 2012 as it collapsed under the burden of losses and debt repayments following an acquisition spree ahead of the financial crisis.

Shareholders were wiped out when the company de-listed and its lenders – including RBS, Lloyds and Barclays – and management took control in a debt-for-equity swap.

Post-Acquisition Kier announced in July it was planning the sale of Mouchel Consulting just over a year after completing the acquisition of the Mouchel Group business for £265m. The 2015 acquisition came with the Enterprise Mouchel highway maintenance contracting business, which has been incorporated into Kier Highways and Mouchel's business services operation has been merged with Kier's facilities management business.

The remaining Mouchel Consulting highway design, civil engineering and transport planning consultancy was lined up for sale because it does not provide a long term strategic fit with Kier's core business, a trading statement from the company said. Kier has a separate in-house construction and civil engineering design division. Mouchel Consulting made £8m in earnings before interest and tax deductions for the year to July 2016 and the company had about £25m of assets.

"Whether this acquisition can be deemed a success, time will only tell."

Acquisition of Rhead Group & Simulation Systems

In 2015, Costain completed the acquisition of Rhead Group, a professional services consultancy with a focus on programme and commercial management.

Rhead Group operating with over 550 people, provides a range of solutions for the lifecycle of infrastructure, construction and asset management programmes, primarily in the UK, for a number of blue-chip customers including National Grid, Wales & West Utilities and BAE Systems. Rhead Group was acquired for a total cash consideration of £36 million on a debt free / cash free and normalised working capital basis and the consideration was funded from Costain's existing cash and debt facilities. In the year ended 31 July 2014, Rhead Group generated revenues of £63.5 million and EBITDA of £5.2 million (before exceptional administrative expenses of £0.7 million).

It completed the acquisition of SSL, a provider of innovative technology-based solutions, primarily for the highways sector but with the potential for wider application across the Group. SSL was acquired for a total cash consideration of £17.0 million on a debt free / cash free and normalised working capital basis and the consideration has been funded from Costain's existing cash and debt facilities. In the year ended 31 March 2015, SSL generated revenues of £15.1 million and EBITDA of £2.0 million.

Bolt-on acquisitions can provide: new services in new markets; intellectual property coverage; and ability to leverage footprint to capture incremental revenue; but even if the financials make sense- they rarely change the whole game plan. Sometimes it's better to be successfully acquired, than it is to try and emulate the acquirers, to become a Tier 1 leader.

Costain has been "shackled" to a "stick-to-its-knitting" strategy with several large Group Acquisition Proposals being rejected by its Board, including reluctance on the part of the bruised Stakeholder shareholders. Finally, it made an expensive failed bid for May Guerney in 2014, that must have further exacerbated these supportive shareholders. It is a very interesting point, that when minority shareholders have representative Director(s) on the Board, they clearly have more influence over strategy and decision making than most Plc minority shareholders do. Shareholder activism is on the increase, but generally speaking an institutional investor will abide by what the management says- all too much some will say. Therein lies perhaps the role of Supervisory Boards in Mainland Europe, where UK Non-Executive Directors maybe fall short, in challenging a dictatorial CEOs and Executive Boards.

MORE VERY RECENT UK M&A DEALS (October 2016)

Source: Building.co.uk

(Please see references over the page).

GLOBAL ENGINEERING & CONSTRUCTION M&A in Q3 20016

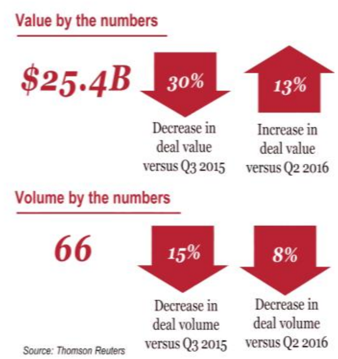
Global engineering and construction M&A deals insights: Q3 2016 update

Executive summary

Global engineering and construction (E&C) M&A deal values continue to reflect softness in 2016 versus prior years, but masking healthy deal volume. While both value and volume declined in Q3 2016 compared to comparable 2015, on a relative year-to-date basis 206 deals through Q3 2016, outpaces 2015 and 2104 (187 and 103, respectively) demonstrating heightened activity for smaller transactions. There were 66 deals this quarter, with the Construction Materials Manufacturing category contributing 26 and Construction 16 of the 66 deals.

Overall Q3 2016 deal value increased by 13% from Q2 2016 but decreased 30% from Q3 2015. On a YTD basis, 2016 average deal size decreased by 10% to $410 million versus $452 million in 2015. Civil Engineering registered the highest growth on both year-over-year and quarter-over-quarter basis. Construction and Home Building declined 34% and 31%, respectively, from Q2 2016, but increased 38% and 76% when compared to Q3 2015.

There were five megadeals announced in Q3 2016, unchanged from Q2 2016 and Q3 2015. The largest deals were Xinjiang Dushanzi Tianli High & New Tech Co. Ltd.'s acquisition of China National Petroleum Corp.'s E&C assets for $4.2 billion, and Komatsu America Corp.'s acquisition of Joy Global Inc. (valued at $2.8 billion).



ource: pwc

"The factors we see influencing M&A activity in the E&C space as we enter the last few months are:
• Geopolitical uncertainty globally influencing transactions
• Impact of pending Brexit discussions with the other European territories and potential for greater fallout
• Continued strength in the US economy creating opportunities for both domestic and inbound transactions." *pwc*

Optimize deals

Key trends and insights

Top 10 Engineering and Construction Deals 2016 (YTD)

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
03/13/16	Shenzhen Metro Qianhai International Development Co. Ltd.	China	China Vanke Co. Ltd.	China	Pending	10,806	Construction
02/26/16	KUKA AG	Germany	MECCA International (BVI) Ltd.	British Virgin Islands	Pending	4,663	Construction Machinery
09/10/16	China National Petroleum Corp.-Assets	China	Xinjiang Dushanzi Tianli High & New Tech Co. Ltd.	China	Pending	4,157	Civil Engineering
01/26/16	Terex Corp.	United States	Zoomlion Heavy Industry Science & Technology Co. Ltd.	China	Withdrawn	3,364	Construction Machinery
07/21/16	Joy Global Inc.	United States	Komatsu America Corp.	United States	Pending	2,778	Construction Machinery
06/21/16	SolarCity Corp.	United States	Tesla Motors Inc.	United States	Pending	2,590	Construction
06/29/16	BBMG Corp.-Assets	China	Tangshan Jidong Cement Co. Ltd.	China	Pending	2,587	Construction Materials Manufacturing
02/28/16	Jaiprakash Associates Ltd.-Cement Units(6)	India	UltraTech Cement Ltd.	India	Pending	2,424	Construction Materials Manufacturing
06/21/16	DH Services Luxembourg Holding SARL	Luxembourg	Kion Group AG	Germany	Pending	2,100	Construction Machinery
02/03/16	RONA Inc	Canada	Lowe's Cos Inc	United States	Completed	[illegible]	Construction Materials

MORE VERY RECENT UK M&A DEALS


Laing O'Rourke sells mobile crane fleet
Laing O'Rourke has sold its mobile crane fleet to hire specialist Ainscough.


Spie buys £80m Midlands FM business
Spie has acquired Midlands-based FM business Trios Group.


Ucatt and Unite unions merge
Leaders of unions Unite and Ucatt have issued a warning to "bad bosses" after their proposed merger was backed by members today.


Chinese developer circles housebuilder Cala.
China's second largest property developer Evergrande, is in talks to buy Highland housebuilder Cala.


Kier sells Mouchel Consulting for £75m
Kier has sold Mouchel Consulting to WSP Global, 18 months after the business was acquired as part of its Mouchel acquisition.


Interserve to keep RMDK with £17m investment boost


Balfour Beatty buys tech firm to boost UK rail


Styles & Wood targets data centres with contractor buy


Kilpatrick is back, seven years after Balfour Beatty exit


Exclusive: Dunne boss takes 20% stake in Goldbeam Structures


Constructing Excellence targets 10 per cent growth after BRE merg


Goldbeam 'broadens services' with Dunne Group buy


Hyde Group pulls out of £30bn merger


Morrison Utility Services bought by US investor

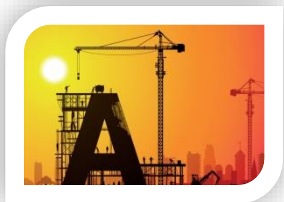

Costain buys traffic management fi

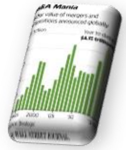

Turner & Townsend expands with '[illegible]' acquisition


Briggs and Forrester in management buyout


Jobs saved as Tata completes sale to Greybull

Source: Building.co.uk





CHAPTER 5.

CORPORATE STRATEGY AND M&A OPPORTUNITIES

OVERVIEW:

With the acceptance that Consolidation, one way or the other, will occur in the industry via voluntary or involuntary M&A, this Chapter moves on to address the Corporate Strategies and M&A Opportunities that will transpire once change is underway.

Firstly, in considering the strategies employed past and present, it defends the reasons to consider M&A as a route to both Consolidation and Diversification, for both Engineering & Construction Design Consultancies and Contractors & House Builders. It is speculated who the future Acquirers and Sellers might be, and offers a Blue-print for a Sale Transaction process, on the premise that companies can be "successfully acquired."

Due recognition is given to the Attractiveness of the Housing Sector likelihood of future growth. In contemplation of who might become the Industry Leaders by 2022, comparison is made of the USA experience in the use of M&A, with the benefit of hindsight.

Some scenarios of future Industry changing M&As are given, without conviction, to widen the debate. A Case Study of Amec is cited as an example of M&A led divestment then diversification that led to an Industry success model. Amec has recently also merged with Foster Wheeler, and is in the vanguard in its Global Engineering and Oil Sector markets, all driven by inspirational leadership, and sound due-diligence in acquisitions.

Secondly, in putting the focus on strategies to make M&A happen successfully, the findings of *Deloitte's* Report on Internationalisation and Diversification of the European Powers of Construction are put to test. Merger routes and investment models are also speculated upon, and two Spanish companies given as Case Studies for successful implementation of ambitious M&A strategies.

Finally it is asserted that change will not happen without leadership. Inspirational leadership is a prerequisite to making things happen, and due credit is given to the blood line of charismatic leadership with which the industry was blessed in its formation as a leading international force over the last century.

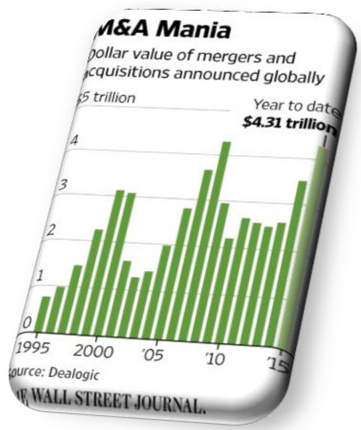
The Agenda

**I know we didn't accomplish anything,
but that's what meetings are for."**

CHAPTER CONTENTS:

5.1 STRATEGIES TO CONSIDER PAST & PRESENT

- WHY CONSIDER M&A AS PART OF A STRATEGY
- WHY CONSIDER M&A THE ROUTE TO GROWTH 2017-2022
- FUTURE M&A STRATEGIES OF UK COMPANIES
  - E&C
  - CONTRACTORS & HOUSEBUILDERS
- STRATEGIES FOR M&A (2007-2012)
- LIKELY FUTURE M&A CANDIDATES (2017-2022)
  -BUYERS
  -SELLERS
- COMPANY SALE TRANSACTION PROCESS
- ATTRACTIVENESS OF LONG TERM HOUSING SECTOR FOR M&A
- WHO WILL BE INDUSTRY FUTURE LEADERS (2022)
- THE US EXPERIENCE
- SCENARIOS OF TOP 5 UK CONSTRUCTION COMPANIES CONSOLIDATION (2022)
  -ACTUALS (1995-2015)
  -EXAMPLE SCENARIOS (2017-2022)
- CASE STUDY 1- AMEC FOSTER WHEELER M&A SUCCESS STORY TO DIVERSIFICATION
- TOP 5 MAJORS M&As OF THE PAST



5.2 STRATEGIES INTO M&A ACTION

- TOP 5 MAJORS M&As OF THE FUTURE
  -WHAT WOULD CONSTITUTE A MODEL MERGER
  -INTERNATIONALISATION & DIVERSIFICATION PAY DIVIDENDS
  -WHAT WOULD CONSTITUTE A GOOD INVESTMENT MODEL TO ACHIEVE DIVERSIFICATION
  -MEASURE OF INTERNATIONALISATION OF EUROPEAN MAJORS
  -EVIDENCE OF DIVERSIFICATION AS A ROUTE TO STABLE PROFITABLE GROWTH
  -10 YEAR HISTORY
  -REASONS TO DIVERSIFY
  -SUCCESSES OF DIVERSIFICATION
  -CASE STUDY 2- ACS
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5.3 LEADING THE STRATEGIC PLAN PROCESS

- FAMILY TREE OF INDUSTRY LEADERSHIP
- M&A COMPETITIVE STRENGTH MATRIX
- TURNING MERGER STRATEGY INTO ACTION
- MULTIPLE SCENARIOS FOR UK M&A

No Pain no Gain.

"Does this mean the merger is off?"

CHAPTER 5.

CORPORATE STRATEGY AND M&A OPPORTUNITIES 2016

5.1 STRATEGIES TO CONSIDER PAST & PRESENT

WHY CONSIDER M&A AS PART OF A STRATEGY

We are fine as we are, riding the waves and rises and falls of the market; focused on organic growth, and a safe and sound until we beach for retirement.

And, there were always good sound market, accounting and common sense reasons why contractors should not acquire competitors:

- It removed a competitor from the market, reducing capacity to the advantage of all, except arguably the acquirer
- It entailed paying substantial Goodwill over and above Balance Sheet Book Asset Values
- Work-in-Progress was invariably difficult to value, without a full commercial audit of all projects.
- Working Capital was typically negative requiring an injection of cash from the selling Group.
- Brands and cultures were often lost or clashed in a people business, where the key asset (people) can leave the company post acquisition, or cause discord.
- If you want to grow, win more work and take on staff. Why risk taking on someone else's work.
- Increasingly pension deficits which are now consolidated on Balance Sheets became a senior M&A consideration.

D

Demands of clients seeking 'one-stop-shop' and 'cradle-to-grave' services, and contractors needing access to finance and strong balance sheets to play in the PFI market, have led to changed Domestic and Global business development strategies. The traditional, hitherto cautious, view to expansion by M&A is no longer an option, as US Giants, who account differently for Goodwill, buy up UK Consultant firms, and European Mega Contractors bid in open competition with the few domestic UK large contractors left with the ability to compete.

In

In the 1990's there started a diverse shift in construction group corporate strategies. One of the shifts was to re-focus and where possible re-state companies in the FTSE "Support Services" sector, where PE ratios were more favourable. But that shift, coupled with the cash requirements for PFIs did not always make for smooth transformations. In other areas there are examples where M&A transactions have ended in the demise or subsequent sale of companies, sometimes linked to EPC risk profiles.

Three ways in which companies formulate strategy

Source: McKinsey's

There were other tales of woe. The "Strife of Brian" became a fiasco at Amey when Mr Staples was branded as a "Strategic Stinker". In 2002 Amey's shareholders saw their £1bn investment get knocked down to £81m through mismanagement and accounting discrepancies . They had little choice at the time but to accept a bid from Spain's Ferrovial.

Amey's plight was no tragedy (as Ferrovial pledged to retain all 9000 staff), but its demise was calamitous. It was only six years prior that the former chairman Neil Ashley recounted how he bought a road-builder for £6m in 1989 and turned it into a facilities management-led contractor with an £800m order book and £30m in the bank. In 2002, Amey lost £130m. Amey just didn't realise how tough it was to grow a support services outfit in a bear market, as well as underestimating the costs of the PFI. Capitalising PFI development costs on flawed projects proved to be the "Elephant" in the CEO's office.

Sometimes change occurred because of succession planning. Lord Hanson led a successful conglomerate but it was recognised that his son as successor boasted a different skills set which did not lend itself to wheeling and dealing at a conglomerate, but focused on Hanson's Building Materials business. Neil Ashley had led the successful MBO of Amey from ARC, prior to Brian Staples taking the helm; and Colin Busby had done a similar MBO deal at Kier, buying the business from Hanson (ex-.Brian Beazer) only to float the business a few years later. Clearly many successes were all about striking the right deal at the right time- MBOs, IPOs and M&As.

But the increase of corporate activity of subsequent years for many companies, looking outward, resulted in mergers and acquisitions at the forefront of their firms' strategies as the route for growth and manageable change. Consolidation, by mergers and acquisitions, in the construction industry has led to the big firms getting bigger and the small to medium companies finding it increasingly difficult to maintain competitiveness. The motives behind this wave of consolidation was the fact that financial institutions wanted to deal with larger companies, but also the belief that the larger the firm the greater the efficiency. Mergers are justified by the extent to which they add value. Adding value requires some synergy which may be obtained by winning access to complementary assets or deriving economies of scale or scope related to the core business, especially in terms of raising finance for PFIs etc.

"There would be a significant incentive for companies to grow if the costs of production were to decrease as the scale of the operations increased. Against this background, debates revolve around the benefits of size, by estimating the relation between a measure of costs and a measure of size.

A merger may seem a good strategic fit, at first, but the reasons to pursue it, and the tactics to achieve a successful transition can be more complex."

Finding the right reason to acquire, or merge, means understanding the categories for merger motives.

Categories for Merger Motives

Economic Motives	Personal Motives	Strategic Motives
Marketing economies of scale	Increase sales	Pursuit of market power
Increase profitability	Managerial challenge	Acquisition of a competitor
Risk-spreading	Enhance managerial prestige	Acquisition of raw materials
Cost reduction	Acquisition of inefficient management	Creation of barriers to entry
Technical economies of scale		
Differential valuation of target		
Defence mechanism		
Respond to market failures		
Creates shareholder value		

Economies of Scale and Cost Reduction are common traits to M&A focused on Consolidation. Most, if not all the Economic Motives will resonate with the promoters of mergers of contractors. Personal reasons may be secondary, but there have been several industry studies cynically showing how CEO salaries correlate to company size, often in turnover, more so than in market capitalisation, or profit. John McDonough's salary at Carillion certainly grew proportionally with Carillion's size, as it acquired Mowlem, Alfred McAlpine and others in the 2000's. The key Strategic driving motive in construction should however be the pursuit of market power in preparation for tomorrow's mega projects in a global industry.

Construction has traditionally been a very fragmented industry, with low barriers to entry. This is changing with the Construction 2025 model of mega projects, and companies needing strong balance sheets, in-house resources, and established blue-chip client base, and the need for consolidation in the industry to achieve it.

The Values in the Construction Industry

Size and scale
Geographic diversity
Customer concentration
Project risk
End markets served
Consistency of profits
Barriers to entry
Overall growth characteristics
Complexity of work
Quality and ongoing commitment of management
Recurring revenue component (MSA, service work, repeat customers)

- Methods of work procurement (e.g. negotiated vs. bid)
- Nature of work delivery and method (e.g. design-build vs. design-bid-build, etc.)
- Access to capital
- Amount of bonded work
- Prime vs. sub-contracted revenue mix
- Consistent and disciplined approach to processes for managing work
- Level of self-performed work

At the end of the day, these issues are correlated to the ultimate "values" that shape the Industry. Size, diversity and sound risk management go together toward a disciplined approach to responsible growth.

WHY CONSIDER M&A AS THE ROUTE TO GROWTH

Merger Waves

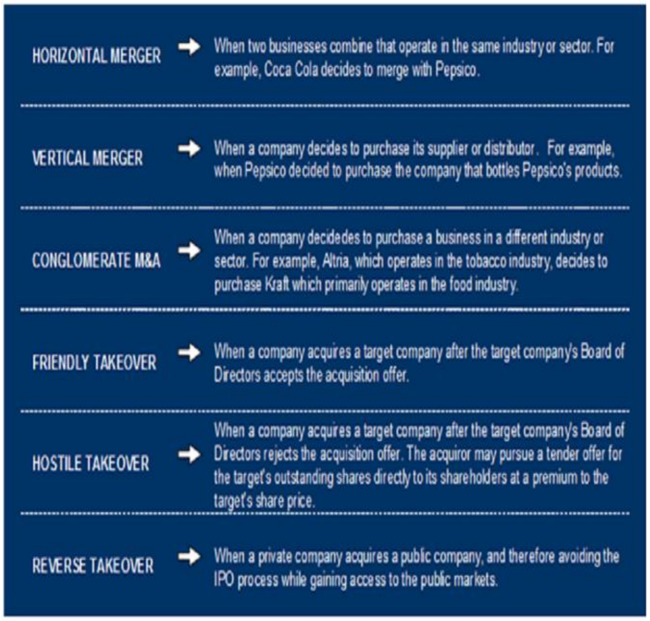
PERIOD	NAME	FACET
1897 – 1904	FIRST WAVE	HORIZONTAL MERGERS
1916 – 1929	SECOND WAVE	VERTICAL MERGERS
1965 – 1969	THIRD WAVE	DIVERSIFIED CONGLOMERATE MERGERS
1981 – 1989	FOURTH WAVE	CONGENERIC MERGERS; HOSTILE TAKEOVERS; CORPORATE RAIDING
1992 – 2000	FIFTH WAVE	CROSS BORDER MERGERS
2003 – 2008	SIXTH WAVE	SHAREHOLDER ACTIVISM, LEVERAGED BUYOUTS, PRIVATE EQUITY

Source: Linkedin

2017-2022	**SEVENTH WAVE**	
		CONSOLIDATION
		GLOBALISATION

With the recession considered to be over if the UK economy meets its expectations, rising turnover and damaged valuations have left construction firms in a climate perfect for acquisition deals. Are you in a position to grow your business or is it time to sell up, is the question put by Analysts to Construction Boards. Management egos to one side, maybe now is the time to look to sell, or merge to maximise shareholders returns.

Mergers of the 1990's



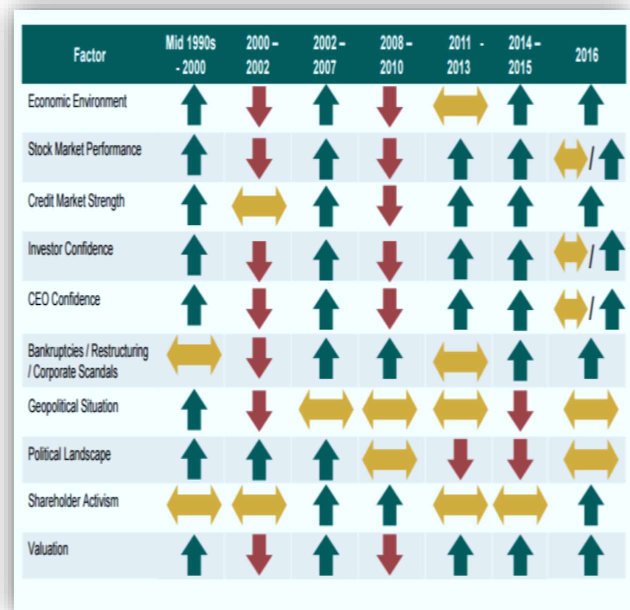
Source: Streetofwalls.com

It is a fairly new phenomenon that mergers should take place in order to consolidate an industry. Hitherto, it would be conceived that taking out a competitor reduces capacity to the benefit of all. How things have changed is that size now matters in the industry more than ever before.

Consolidation

Most of the external factors affecting the M&A environment in 2016, are on an upward trend.

Factors Affecting the M&A Environment



Source: D.A. Davidson

Maybe it's called the sign of the times, or sceptics may say it will not happen in mainstream construction in the UK. Either way, the Global Engineering and Design, Project Management Firms (E, EC, EPC) are in the vanguard of seeking Full Service M&A and Industry Consolidation. They aim for the Top of the M&A Value Pyramid.

FUTURE M&A STRATEGIES OF UK COMPANIES

Engineering Companies & Clients In The Global E&C Markets

Source: Internet

Recent M&A Focus has been on the EPC and Engineering Consultancy side. *PWC's* 2016 Engineering and Construction Industry Trends Report points out that the E&C sector has been in the throes of consolidation for the past few years. Long a highly fragmented business, especially in design and engineering, the industry is finally shifting. Firms are now looking for greater value through acquisitions — they want to enter new geographic and vertical markets, to diversify or narrow their service offerings, to become more vertically integrated, and to boost their talent pool. The sheer number of deals remained high in 2015.

Sometimes expansion is the goal: AECOM's 2014 acquisition of rival URS/Scott Wilson for $4 billion significantly enhanced AECOM's global client base, primarily for power distribution and oil and gas projects. More typically, firms make acquisitions to target particular geographic markets. That can be risky — URS bought Flint Energy Services in 2012 to gain traction in western Canada's oil sands region, a deal that might have struggled in the face of the recent collapse in oil prices. A further motivation involves buying another firm in order to gain entry into a particular services area, either to augment a company's current services portfolio or to move up the value chain in search of less commoditised offerings.

Consolidation as a strategy, however, won't succeed unless the engineering and construction firm understands its market well, to the point of being able to forecast growth areas that can be targeted better by an acquisition. Firms need to fully understand the markets they want to get into, the best way to get into them, and the particular differentiating capabilities those markets require for success. With that insight in mind, E&C companies can undertake acquisitions with a disciplined view of the skills they need and how they plan to use the acquisition to differentiate themselves from competitors.

Source: Building.co.uk

Acquisitions must be made carefully, with an eye toward how the combined companies are integrated and create unique value in the market. The deal must also complement the acquiring company's current services portfolio, be accretive to earnings, and fit clearly into the growth strategy.

No matter what path E&C firms decide to take in order to escape the commoditisation trap — whether through better technology, new geographies, augmented services portfolios, or fresh talent — success will be determined by those who can differentiate themselves from the crowded pack. Visionary leadership will be required.

In the UK the AECOM/URS, WSP-Parsons/ Brinckerhoff, CH2MHill/Halcrow, Arcadis/ Hyder and Ramboll/Environ acquisitions have all led to further consolidation in the Engineering Consultancy and EPC sectors, where AECOM comfortably now assumes contracting risk, and position one in the Rankings.

These large deals are grabbing all the attention internationally too, cited as "Mega-deals" in the E&C sector, and aggressive moves to acquire additional capabilities and market share. Deals such as, SNC-Lavalin/Kentz and AMEC/Foster Wheeler as well as AECOM/URS, as mentioned, were considered transactions driven by several themes including: – Betting on the convergence of Engineering and Construction – The desire by large firms to compete on a global scale – The proliferation of and competitiveness for "mega-projects" Given the scope and size of these transactions, their impact reverberated throughout the industry and across multiple sectors (e.g., engineering, oil & gas, water).

SNC Lavalin and Amec Foster Wheeler, via recent acquisitions and mergers, are now truly Global E&C companies, of which there are no UK counterparts

Notable E&C Deals

($ in millions)				Enterprise Value
Date	Acquirer	Target	Enterprise Value	EBITDA
03/29/16	Stantec	MWH	$ 793	9.5x
03/23/16	1347 Capital	LIMBACH	70	8.5
11/12/15	salini impregilo	LANE	406	NA
10/14/15	TETRA TECH	coffey	126	8.2
10/03/15	TRC	[illegible]	130	8.8
08/25/15	WSP	MMM GROUP	310	8.9
08/14/15	LLCP	Trinity Consultants	375	12.0
07/01/15	GENERAL ATLANTIC	ENGineering	NA	11.0
09/03/14	WSP	PARSONS BRINCKERHOFF	1,243	8.8
08/07/14	COMPASS	CLEANEARTH	243	8.3
07/31/14	ARCADIS	Hyder	451	12.9
07/13/14	AECOM	URS	5,584	7.3
06/23/14	SNC-LAVALIN	KENTZ	1,695	13.7
03/12/14	WSP	FOCUS	329	8.3
01/13/14	amec	FW	2,816	9.6
09/08/13	JACOBS	SKM	1,100	7.2
07/30/12	CBI	Shaw	1,910	7.0

Source: Internet

Contractors

In the UK Contracting/Construction sector, the *Ernst & Young* Construction- consolidation ahead Report of 2015 predicts that by 2020, the construction industry will change dramatically, with significant consolidation ahead. It suggests that while this might be led by a handful of high-quality operators that exist today, it may alternatively be initiated by interest from overseas. Entities from Southeast Asia, Sovereign Wealth Funds or continental European operators are all likely to be interested parties.

If EY are correct, the result will be a very different industry, one that EY believe could contain as few as five leading players, each with revenue in excess of £5b return on invested capital (RoIC), of 5%+ and a likely £50m minimum project threshold. For counterparties to the sector this consolidation would almost certainly reduce the risk associated with construction, and come at a financial cost. It may, however, be a financial cost worth bearing if it reduces the downside risks associated with projects running into difficulty. Ultimately, a construction sector that is both financially and operationally stronger will be of benefit to all.

The impact of a fragmented UK Construction sector is being seen in financial results. In 2014, the top 25 UK construction companies turned over £42b for an EBITDA margin of 2.6% and a combined profit before tax of £437m (1% of turnover). In comparison, the 10 largest European construction companies turned over £132b and delivered a combined 8.4% EBITDA margin.

RoIC for the UK industry totalled just 0.4% in 2014. Only three organisations achieved returns in excess of 5%. This mirrors the longer-term trend; the listed construction sector has not produced an annual RoIC in excess of 3.5% in the last 10 years. So EY predictions could definitely hold water.

Provided management teams are prepared to entertain transactions, deals may well be done. Maybe this is one of the fatal flaws in the listed Plc Construction sector, which is driven by the City's expectation for short term shareholders returns, the incumbent Board of Directors' Agenda, and focus on the CEO's terms of office.

It takes a team of liked-minded people to work together to get to see the big picture.

STRATEGIES FOR M&A (2007-2012)

With turnover of construction firms back on the rise after years of recession, but with valuations still low and balance sheets weak, some companies should be reviewing the opportunity to make a good deal either for a sale or merger, rather than recapitalisation. Costain is one example of a company that has used Rights Issues effectively to stay afloat during bad times, when a trade sale might have made far more sense to all but incumbent management. A survey of construction finance directors, conducted by analyst house Liberium, found that 85% expect an increase in M&A activity- and importantly nine out of 10 of the sector's investors (small-to-midsize fund managers) agreed. So *Building* explored what the prospects are for more mergers and acquisitions, and by whom.

M&A activity during the recession has been characterised by two principal themes: consolidation in the consultancy sector, where a number of major business have been acquired, mostly by large foreign-owned consultants looking for prestigious UK expertise and manpower; and opportunistic purchases of businesses made vulnerable by the long economic slowdown. Aecom's purchase of Davis Langdon and Arcadis' buy-up of Hyder are two examples of the former, while Morgan Sindall's purchase of parts of

Connaught and Galliford Try's Miller Construction acquisition are examples of the latter.

Few experts see any reason for the pressure for consultant consolidation to ease, with Liberum marking all consultants as potential acquisition targets, making WYG merely the most open example. UK engineer Atkins, for example, was widely reported to have mulled buying Parsons Brinckerhoff before WSP stepped in, and has made no secret of its desire to bolt on further acquisitions to boost growth, primarily into new markets overseas. However, for other analysts, the 17,000-strong firm could itself be a target for one of the international consultancy giants.

Listed Consultants often find it difficult to satisfy shareholders' desire for growth, without considering M&A as its route to delivery. Consulting is very much a skills and people business.

A second dynamic - of opportunistic purchases of troubled contractors - has seen some major deals pulled off, but, with the major exception of Balfour Beatty, is becoming less plausible as the market recovers. These deals are in stark contrast to those undertaken before the recession took hold, where housebuilders and contractors were agreeing to merge with other strongly-placed rivals in order to grow turnover and market share.

With the strengthening market comes the opportunity - potentially - for a return to an M&A approach to growth. But there are a number of factors of mitigation against it. The question, in terms of acquiring a contractor, is always- what are you actually buying? It's generally a team of people who can leave, there's a low level of capital employed, some plant and, work in progress. WIP is notoriously difficult to value. Not even auditors can value work-in-progress without an army of QSs on each and every construction project. The difficulty in the valuation of part completed projects will always be a poison pill for some conservative acquirers. Indeed the ownership of large contracting businesses often acted as a defence for potential acquisition of the well diversified large construction Groups of the 1980s and early 1990s.

Kevin Cammack, analyst at Cenkos, has stated: "It's still quite early in the recovery and there is still quite a tail of poor margins and profit recovery at contractors. Companies are not too sure whether if they buy someone with a rising order book it will deliver a commensurate rise in cash flow and profits. It may make them cautious about taking on a business." Factors such as the general election, which is expected to lead to a hiatus in government spending decisions and local authority planning approvals, may also lead firms to defer business decisions.

Nevertheless, *PwC* have said that they are seeing strong interest in sales and acquisitions in a number of areas: firstly, where firms are looking to dispose of non-core assets; secondly, where they are looking to acquire businesses operating in spaces they are not currently exposed to; and thirdly, where there is an opportunity to fill in particular gaps in their service provision in a specific market through a targeted small purchase.

As the market up-turn gets underway the Heavy Building Materials and Cement industry are embracing Consolidation. In 2015 the Mega-Merger of Holcim-Lafarge makes a Group with revenues of $40bn, and EBIT of $6.5bn. Also Irish building materials giant CRH completed a takeover of a number of former Lafarge Tarmac assets in the UK, as part of a €6.5bn deal to acquire assets globally from the newly-merged LafargeHolcim business.The deal doubles CRH's cement production volumes and makes it the third largest building materials company globally.

House Builders

Another area which analysts suggest may prove fruitful is that of private equity-owned housebuilders such as Miller and Countryside, who have previously been angling toward a stock market flotation, but may now be seeing a trade sale as a potentially more lucrative exit. Miller Group's owners Blackstone pulled its flotation in October 2014, just 10 days after launching it. Galliford Try or Kier may be interested in picking up one of these firms that has been groomed for flotation. (Please refer to Section below on Attractiveness of Housing Sector).

The major deals in housing were Barratt buying Wilson Bowden and George Wimpey merging with Taylor Woodrow in multi-billion pound deals in 2007 - two transactions driven by the shortage of land with planning permission in a booming market, and weak balance sheet to replenish land banks. The publication of the NPPF (National Planning Policy Framework) means there is much more land available for housebuilders.

LIKELY M&A CANDIDATES (2017/2022)

Likely Acquirers

The £4bn+ turnover firm is split three ways between UK contracting, support services work such as FM at home and abroad, and overseas construction and PPP interests, principally in the Middle East and Canada.

Like many contractors currently, Carillion is constrained by its debt position, albeit it expects this to improve quickly. Therefore any further bid for Balfour Beatty would involve a rights issue or be paid for in shares (as a Merger), meaning shareholder approval will need to be sought, and making another hostile bid very unlikely. Rivalry remains between the Groups and the rally in Balfour's share price since new chief executive Leo Quinn joined will make reaching a deal harder. Analysts are divided over the likelihood of another Carillion bid. It's considered unlikely now, but the logic for creating a FTSE 100-scale international contractor remains. Whitman Howard analyst Stephen Rawlinson says "it would be a good thing for both companies in my view."

Carillion and Balfour Beatty must remain the Prime Movers for Merger and catalyst to Consolidation in the Industry.

From being renowned as the safest and most corporately conservative of contractors over almost two decades, Kier is, under two chief executives since the departure of long time boss John Dodds in 2010, almost gaining a reputation for adventurism with the 2013 purchase of May Gurney for £221m and Mouchel, which was taken private in 2012 following significant accounting errors, although now seen as a reformed business. Combining the firms has cemented Kier's market strength in services to public sector and local authority clients. However, Kier is also constrained by its debt position, and it's not surprising that Mouchel was back on the market (and now sold) after only a partial integration.

"Kier itself is now seen as a Major Merger partner itself. It has flirted as an acquisitive company for the first time since the MBO from Hanson, with mixed success. As part of a bigger merged Group, with a similar player such as Interserve, better synergies are likely to be realised; or maybe a wider diversification by seeking a partner outside construction and support services."

With the return of both home and overseas markets, the UK architect and engineer is making profit margins that its contractor peers can only cast envious glances at, while retaining significant cash to make acquisitions or other corporate investments.

With the likelihood of making a bid, high, not least due to the merger trail of its peers, Atkins has made clear it will consider acquisitions to bolster its position only in what it considers to be high growth markets. It never formally confirmed widespread reports it attempted to buy Parsons Brinckerhoff from Balfour last year, despite admitting in its accounts it spent £4.5m pursuing a "significant acquisition opportunity." WYG is seen as an unlikely target, as it adds little extra capability beyond what Atkins already has. Peel Hunt analyst Chris Bamberry says: "I'd expect Atkins to continue to do bolt-on acquisitions over the next few years, but will they actively go and look for something major? I'd expect them to be opportunistic."

The Continental Europeans

Top 15 European Contractors

Based on Total Revenue

Rank 2015	Rank 2014	Firm	Revenue €bn.
1	1	VINCI, France	47.84
2	-	ACS, Spain	42.50
3	4	BOUYGUES, France	29.82
4	3	HOCHTIEF, German	8.70
5	5	SKANSKA, Sweden	16.31
6	6	STRABAG, Austria	15.19
7	7	EIFFAGE, France	13.32
8	8	TECHNIP, France	13.23
9	9	SAIPEM, Italy	12.76
10	11	FERROVIAL, Spain	10.72
11	12	ROYAL BAM GROUP, The Netherlands	8.92
12	-	OZTURK HOLDING CO., Turkey	6.48
13	-	ABEINSA, Spain	5.57
14	-	OHL, Spain	5.26
15	-	PETROFAC LTD, U.K	5.17

Source: Linesight

"Potential acquirers are the Top 5/6 including Vinci (who owns struggling Taylor Woodrow Construction UK), ACS (who own Dragados and Hochtief), Bouygues, Skanska, and Ferrovial (who owns Amey), and Bam/Nuttall. These six players all have project and 3 have subsidiary interests in the UK."

Given depressed domestic markets, there has been some recent cross border deals in Europe, expanding interests of these and other Groups.

Selection of Deals throughout Europe

Bidder origin	Description
Turkey	Renaissance Construction has acquired Netherlands-based Ballast Nedam N.V.
France	GCC SAS has acquired an undisclosed majority stake in Societe de Travaex et Construction, a French-based construction company
France	Vinci S.A. has agreed to acquire a 20% stake in Colombia-based Constructora Conconcreto S.A. through a capital increase.
Netherlands	OPSEU Pension Trust and Universities Superannuation Scheme Limited, PGGM N.V., a Dutch pension fund, have acquired GlobalVia Infrastructuras S.A. together.
Netherlands	Dutch Infrastructure Fund has acquired a 46% and a 75% stake, respectively, in concessions for the development of the M4 and M3 motorways
Belgium	Cordeel Group has acquired Imtech Belgium
Italy	Salini Impregilo S.p.A. has acquired the US-based The Land Construction Corporation, which is specialized in civil construction services
Switzerland	Implenia AG, a listed construction firm, has acquired Bilfinger Construction GmbH
Russia	Gazprombank and United Capital Partners have acquired Stroygazoconsolting (construction, infrastructure, rail, oil)

Source: Deloitte, European Construction Monitor2016

The strength and desire and ability of these European Groups to make investments in UK are discussed in Chapters 3 (Competitor Analysis), and Chapter 7 (Potential Investors). Other would-be buyers and sellers, and Potential Investors and Interested Third Parties are also discussed in Chapter 7.

Likely Sellers

Balfour Beatty

Market cap: £1.92bn
Net Debt: £155m

After a disastrous few years, new chief executive Leo Quinn has steadied the nerves of investors, appointed a new finance director, and attempted to buy himself a little time in which to sort out the £10bn-turnover largest UK contractor. The upward revaluation of the firm's PPP portfolio, and his promise to find £100m of cost savings within the business make it harder for a prospective buyer to persuade shareholders it can squeeze additional value out with a purchase. So far, Quinn's actions have been consistent with maintaining the business in broadly its current form. However, he has made it clear to analysts that no options are as yet off the table, leaving room for continued speculation as to whether the business will be broken up or sold. Building Value's Tony Williams says: "The number one question is whether Balfour will end 2017 as an independent company. I'd say the odds are three or four to one it won't." Aside from Carillion, possible buyers could include large overseas contractors from Europe or Asia. A merger with Carillion is considered its best option still.

mouchel

Kier/Mouchel

Valuation: SOLD for £75m
Pre-tax profit margin: 3.3%

Kier has recently announced that it is looking to sell Mouchel's consulting business, just over a year after it bought the entire Mouchel group in a £265M cash deal. Kier said that simplification of its portfolio is a priority and it wanted to focus on areas that will underpin its growth expectations in its core markets of infrastructure, housing and building. Overall it said the Mouchel business is performing well, with the integration of the strategic highways and local authority highways maintenance businesses now complete. Much of the Mouchel business that Kier bought last year has now been fully integrated into Kier. For example the Mouchel business services operations have been integrated with Kier's facilities management operations, creating Kier Workplace Services.

However the statement said: "As a result, a review has been undertaken of those operations which do not meet the Group's strict financial hurdles and/or do not provide a long-term strategic fit with the Group's core businesses." Maybe this means something escaped the due diligence analysis. It said there is going to be an 'evaluation of the strategic options' for the Mouchel Consulting business, including a possible sale. Mouchel Consulting's earnings before interest and tax for the last year were £8M and its net assets were £25M at the end of June.

STOP-PRESS (12 Oct 2016)-

Kier Group has sold Mouchel Consulting to WSP, the global consultant, for £75 million ($92m) in cash. Kier bought Mouchel Consulting in June 2015 as part of its $325.7 million acquisition of the Mouchel Group. The British construction and support services company said on July 4 that it was considering "strategic options for Mouchel Consulting," a Reuters report said.

"Having completed the integration of Mouchel, we are well progressed with the simplification of our portfolio of businesses," said Haydn Mursell, chief executive of Kier. "The disposal of Mouchel Consulting continues this process and provides increased capital to focus on the opportunities across our core businesses which will underpin the group's future growth."

Having reaffirmed its full-year forecast in September, Kier said that the sale would result in an immediate profit of $49.19 million, which would be used for investments and to cut debt.

WYG is another turnaround business with a potentially strong outlook after some torrid years. Chief executive Paul Hamer has led the firm through a series of operational and financial restructurings since making a £140m write-down after the recession hit in 2009. It made pre-tax profit of £1.7m last year on turnover of £127m. On September 22 this year it now says revenues and profits are expected to be significantly ahead of the same period last year, while the order book has grown by 35% to£157m. The likelihood of a sale is considered very high. It has already mooted in the past its potential interest in either a strategic partnership, a merger or a sale of the company.

Miller Homes outlined its plan to launch an initial public offering and apply to list on the London stock exchange.

The house builder, which has been spun out of Edinburgh-based Miller Group, hoped to complete the offer by October and expected to raise around £140 million, which will be used to pay down existing debt. Miller Group, which had operated as a family-run business for 80 years, agreed a £160 million refinancing package in December 2011 which saw it relinquish a 50 per cent stake to its financiers.

Following the 2012 refinancing, Miller Homes increased its land purchasing investment from £13 million reported in 2011 to £92 million in 2013, with land investment totalling £33 million in the six months to June 30, 2014. Barclays and Jefferies International Ltd were joint book runners in the IPO with HSBC acting as lead manager.

But the potential flotation of Miller Homes on the London stock exchange remained only an option, after the firm shelved its floatation plans in October 2015 due to market volatility.

It is quite possible that Miller will consider a trade sale as an alternative to a flotation, depending on the motives of shareholders and executive management going forward.

Costain has been a long time recovering from its debacle over 15 years ago, when it made a disastrous investment in the USA, under the stewardship of its then CEO Peter Costain. Whereas it was subsequently protected from predators by its White Knight shareholders, who controlled almost half the business, at the time of the bail-out; subsequent Rights Issues, where they have declined to take up rights, or "swallowed their tails", and subsequent sales of shares, mean these two long suffering shareholders now control less than 20%. Kharafi at 5.3% remains Costain's second largest shareholder. Malaysian construction firm UEM Builders Berhad is Costain's largest shareholder, with a 13.7% shareholding as of March 2015. With its £17 million acquisition of hardware and software provider SSL after the period end and the integration of its £36 million Rhead Group buy last August, Costain is focusing on both organic and acquisitive growth to drive the company forward.

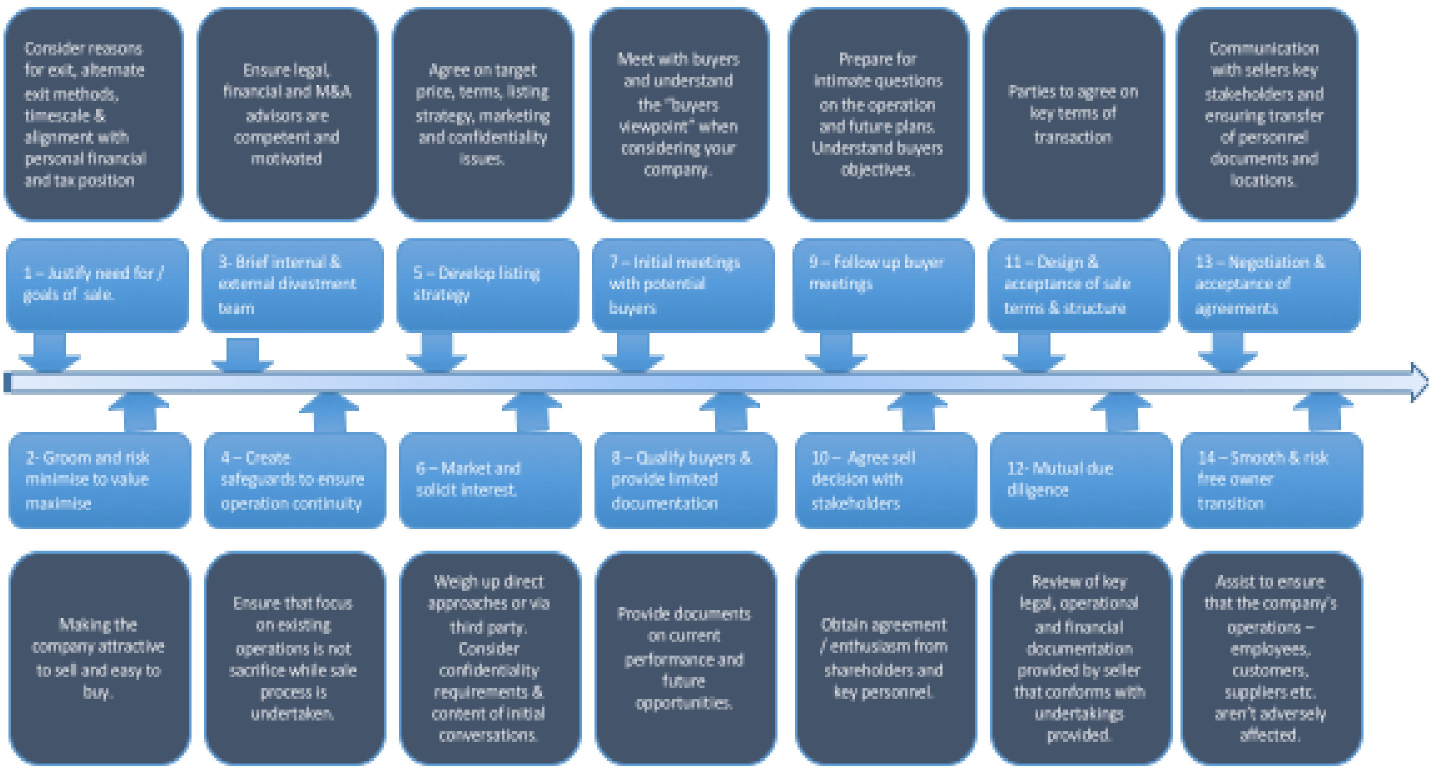
Mergers and acquisitions cost money, and Costain's cash pile shrank from £127 million to a £69.2 million during the period. It's expected to fall further to around £48 million following its SSL acquisition. Outgoings also included higher working capital outflows as a result of its higher revenue, final dividend and pension contributions.

It's cash profile once more looks concerning. Loss on a Manchester PFI and increases in working capital requirements saw net cash fall further. While there is an Order Book of £3.9bn, this looks like a familiar return to the past for Costain, which never recapitalised sufficiently. The company had a history in the mid 1990s of declaring profits on claims on in-complete projects. The difference this time is that the cushion of the substantial minority shareholding held by overseas friends is over. Ultimately, Costain will be acquired, because it's still not back to being a Tier 1 contractor, but has the potential. Maybe a UK tie-up with someone like Babcock, or a foreign suitor such as an old sparring partner Skanska. Or a purchase by Kier might bolster the latter's infrastructure market sector share

United States-based investment group Cathexis claimed victory in its takeover battle for control of international construction services group ISG in March 2016 paying £84.6milllion.

"ISG may have conceded defeat in takeover battle by US Investor Cathexis, but the US Firm is likely to refocus ISG on its core fit-out business only before attempting to sell it on for a profit within 5 years when market fundamentals and appetite for acquisitions are expected to be strong. So ISG may become another acquisition target."

COMPANY SALE- TRANSACTION PROCESSES



Source: Markostryn.com

The text book , holy grail for would-be sellers. Maybe ISG's US owners, Kier as (now ex-)owner of Mouchel and Miller Homes' holding company Miller Group may all well be grooming their subsidiaries for sale; it is most unlikely that is the case at Balfour Beatty or Costain. It is a clear conclusion of this report that these two companies are prime candidates for positive, not submissive, merger and sale, respectively.

Costain, in particular would be well advised to stop acquiring small add-on businesses, and concentrate on its cash balances, and seek a partner with whom to move forward more positively.

Balfour Beatty, having completed year 1 of its turnaround strategy, should be trying to lure Carillion back to the bedroom, so together they can also look more aggressively at synergies and then to the future.

Focus on being successfully acquired

Maybe Costain should take note.

- Actively engage in and align with equity, financial, potential trade buyers and other stakeholders; make sure they recognise the full value in your business.
- Ensure operational risks are understood and managed; avoid trading surprises.
- Build up cash balances and capital efficiency.
- Establish transparent market and trading data; ensure your position in the industry is clearly understood.
- Build strong client base.

ATTRACTIVENESS OF LONG TERM HOUSING SECTOR

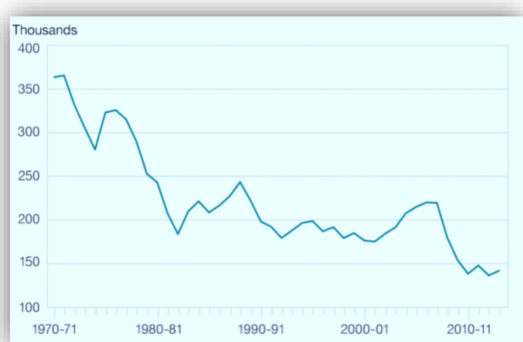
Despite the significant drops in housebuilders' share prices since the Brexit vote, the data suggests this part of the industry may be resilient to the Brexit effect. The results show the profit margins of the top 30 housebuilders have a healthy average of 14.4%. Turnover grew by 14% in one year, and rose by 40% in the past two years. In addition to turnover and profitability, housebuilders have also made great strides in reducing their debt burden and improving return on capital. Most major housebuilder are making more margin now than they were in 2007-08 when the last recession hit. They are operating well above their margin trend across the cycle.

The long term attractiveness of the Housing Market is based on market fundamentals- Supply and Demand; and demographics. Some change in Government Policy may be required.

However, driven by a decade of soaring house prices pre-crisis and lower loan-to-value ratios post-crisis, the value of deposits has soared, creating a barrier to first time buyers. As a result a generation of private renters has emerged and this will increasingly be the norm for the 20-39 age group. There is a rising dichotomy in the market between those who own and those who rent, and increasingly between those (mostly older) households who own outright and those who rent or have a mortgage. In the long run, if policymakers wish to reverse these trends, a large and sustained increase in affordable housing supply would be required. This could involve a range of measures including further planning reform, action to address skills shortages in the housebuilding sector and enhanced financial incentives to build more homes. But cuts to social rents announced in the Budget will tend to work against this for local authorities and housing associations, while private developers may be cautious about expanding too rapidly. So housing supply shortages are expected to persist for at least the next decade. Realistically, therefore the rise in Generation Rent will continue until at least 2025.

Despite increased demand, homes completed per year have been in decline since the 1970's

UK House-building (Homes completed, 1970-2014



Source: HMG Housing Stats

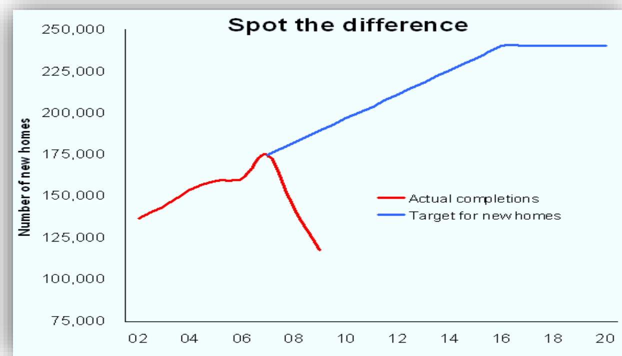
Unlocking Development Government, for example, is investing a total of £1.8 billion, through the Growing Places Fund, the Local Infrastructure Fund and Get Britain Building, to provide infrastructure and development finance to stimulate economic development and get sites moving and homes built. To date the large sites programme has invested £76.7 million, to deliver 42,000 new homes. Surplus public land suitable for over 100,000 new homes has been identified and its release for development is being accelerated.

"It is an excellent time to be operating in the house-building sector, with demand for new housing continuing to grow supported by improving macroeconomic conditions and mortgage market and a more favourable planning environment,"

said the CEO of Miller at the time of its planned flotation.

Macro-economic factors such as strong consumer confidence and low interest rates are likely to play the role of key catalysts towards augmenting the UK housing market growth in the coming period. Taylor Wimpey's Strong land banks and order books, strategic investments, and attractive trading numbers are likely to generate significant shareholder returns. Taylor Wimpey's portfolio seems particularly strong. Consensus analyst forecasts put Taylor Wimpey on a P/E of 10, with a strong 6% dividend yield

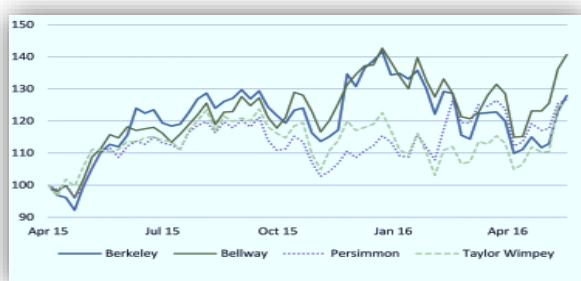
Spot the difference between actual completions and targeted completions since 2002.



Source: Dept Communities & Local Government

Share prices of the Major House Builders remained on the rise in the first half of 2016, and will weather the Brexit blip, as the fundamentals and market forces remain strong in the long terms, given demand and demographics.

Housebuilders' share prices (Apr 2015-Apr 2016)



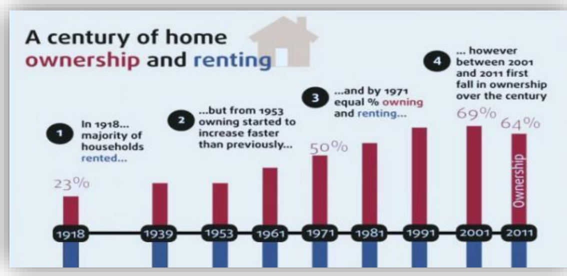
Source: Telegraph

The Brexit Blip has put Housebuilders shares back 18% on 2015 levels, but are likely to recover

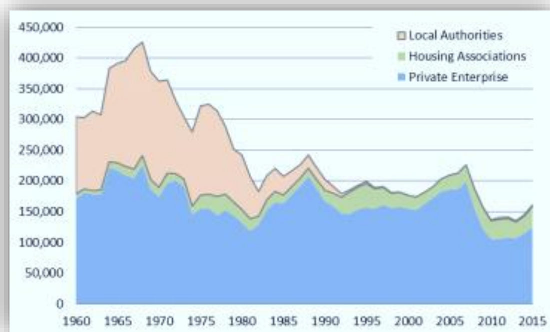
Berkeley Homes share price, in particular has rallied over the last 5 years.

Source: InsideHousing

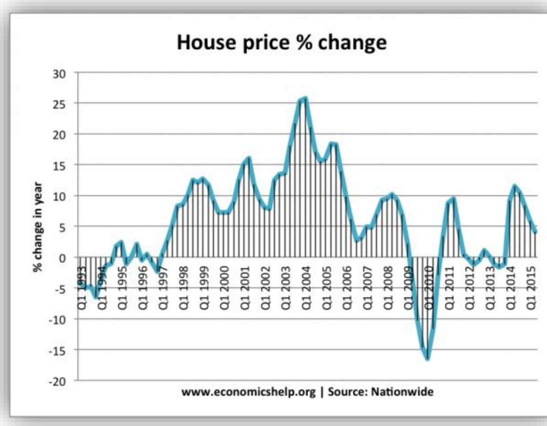
Bovis is also on the move!



An Englishman's Home is his Castle. Short term affordability might change, but demand and long term desire for home ownership won't. Home ownership and housebuilding whether for sale or public or private renting market, where fundamentals remain sound, is a market to watch for the large UK Construction Groups. House completions are bound to increase in years to come, whatever the Government incentives to bolster the market.

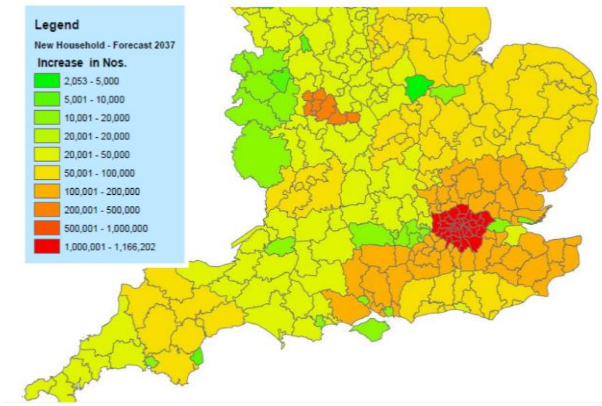


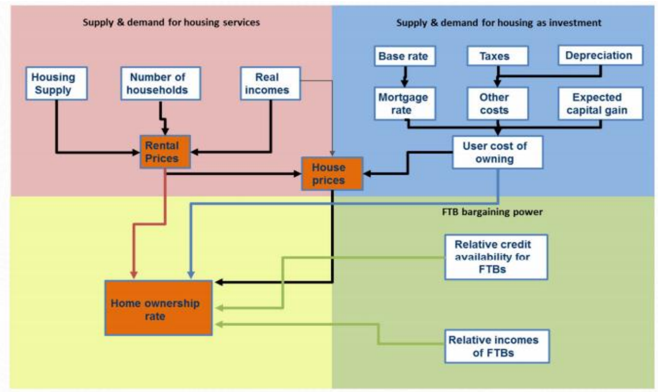
The housing market will not stay in the blues for long, the bottom line is that it's a simple supply and demand model, with demographics on steroids, particularly in the South of the UK (PTO).



Source: EconomicsHelp

Future Housing Growth





The Base Model (Supply & Demand)

Source: Taylor Wimpey

WHAT GOVERNMENT INITIATIVES WILL HAVE THE MOST IMPACT ON THE HOUSING SECTOR?

Theses are ranked in order of highest impact on the market to lowest impact

1. Help to Buy initiative
2. Planning Policy relaxation
2. Public land initiatives
4. Review of housing standards and regulatory burden
5. Build to Rent fund

Help to Buy is a positive

The Help to Buy (H2B) initiative seems to have divided opinion in the wider press and political domains. Our survey however confirms that our guests are more positive, with H2B scoring first. It is worth noting that our guests were spread across all elements of the housing market, not just house builders.

Planning policy relaxations can make a difference

In second place came Planning Policy relaxations. Linking back to our first question, you can see the apparent contradiction, with it also being seen as the lowest relative opportunity for the sector. Here, it has scored as the second highest potential impact on housing. There are certainly mixed views on the success of changes to the planning system. Perhaps having a functioning planning process is perceived as a basic requirement for the industry, not an opportunity. Likewise, our guests may be suggesting that further changes to measures announced so far will have a high positive impact on housing delivery.

Public land initiatives: what will be the real impact?

The role of these initiatives was recognised in third place and recent announcements have confirmed allocation of public land to support housing delivery, however there are still some fundamental question marks regarding location and the real scale and timing of impact.

Quality versus viability

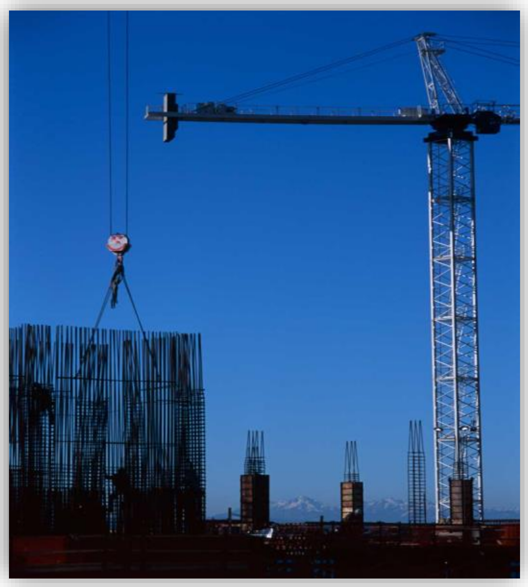
In only fourth place is the impact of current plans to review housing standards and regulatory burden. Again, contradictory perhaps to the outcome of the scoring of question two? Maybe in relative terms to H2B and Planning Policy, it just isn't seen as a primary issue for the industry.

Build to Rent rated lowest

In fifth place, perhaps surprisingly again, is the perceived impact of the Build to Rent fund on the housing sector. With H2B taking the column inches at the moment, perhaps the government's rental initiative is seen as having being marginalised.

Source: EC Harris

WHO WILL BE THE INDUSTRY LEADERS IN 2022



Referring to the Table: Changes in Top 25 Construction Rankings (1996-2006), given in Chapter 4 "Recent and Historic M&A Activity" (see below), it can be observed that there have been many changes in the names, ownership and structure of the Top 25 and Top 10 in particular. Only Balfour Beatty increased its 2006 ranking in the same form as it held in 1996.

1996			2006		
1	Amec	£2,176	1	Balfour Beatty	£4,938
2	Bovis (P&O)	£1,777	2	Taylor Woodrow	£3,556
3	Trafalger House (Kvaerner)	£1,712	3	Amec	£3,065
4	Balfour Beatty	£3,003	4	**George Wimpey**	**£3,003**
5	Wimpey	£2,513	5	**Barrett**	**£2,513**
6	Tarmac	£2,286	6	**Persimmon**	**£2,286**
7	John Mowlem	£2,284	7	Carillion	£2,284
8	John Laing	£1,933	8	Laing O'Rourke	£1,933
9	Taylor Woodrow	£1,621	9	Kier	£1,621
10	Costain	£1,296	10	Morgan Sindall	£1,296
			11	Interserve	£1,229
				HBG	

Source: Rankings Building.co.uk

No company has stayed in its 1996 corporate format or ownership structure, except Costain, which would surely have been acquired if not for its weak financial position, and the comfort of its substantial shareholding of then unwilling sellers-Kharafi of Kuwait and UEM, of Malaysia. Their shareholdings have since been diluted, and as mentioned in prior analysis, Costain is now surely vulnerable to a take-over, most likely by a European Major.

In fact, the changes at the top over the last 20 years have been dominated by M&A led strategies, and it's the Author's opinion, that they will continue to do so, as further consolidation is inevitable in the Industry for many of the reasons already discussed. This is not least because of the need for size to maintain capacity in both financial and in human resources and skills set, in a cyclical industry where cash flow and financial strength rule. Many of the earlier Spanish companies would not have survived the 70% downturn in its market of recent years had mergers not formed the mega companies such as ACS and Ferrovial, the former which has sustained a record $2bn loss, but maintained liquidity by selling assets. Its focus is now further international expansion.

The next section in this Chapter looks at the parallels with the "Corporate Life Cycle of US construction & design since 1960's". Companies have said to have suffered from failures to adapt to market shifts, particularly after bureaucratic management succession from the autocratic styles of executives founders of many businesses . Less than half of companies survive, and those that do, do so principally via acquisition (c.40%); and of those less than half survive in the long term. The life cycle stages, which resonate with a few UK large construction groups of the same period, are characterised as: *infancy, go-go childhood, adolescence, prime of life, stability, aristocracy, then reinvention (either by M&A or other), followed by bureaucracy and ultimate death*. 2007 and the global economic recession was a set-back, which took the wind out of the sails of many corporations. The secret now for the "phoenix reinvention" of construction groups facing the challenges of the future, will be a 2017-2023 renaissance, involving major consolidation in the industry, and creation of a few large well-resourced UK company groupings, with eventual global reach.

The following pages include a look at 20 years of changing names, rankings and fortunes of the TOP 10 in the UK (1995-2015)

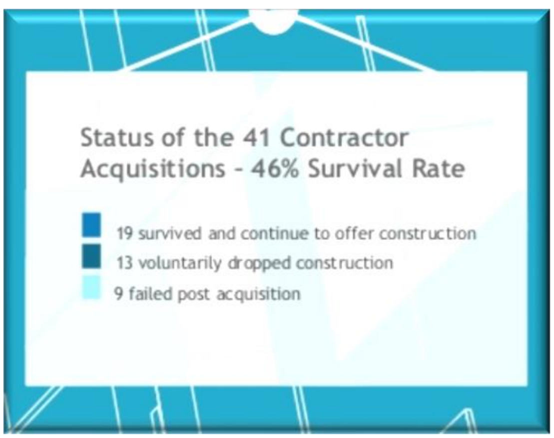
Thereafter, one scenario is given of how in the next 5 Years, possible changes at the TOP 5-15 in the UK, will chance the structure the industry (2017-2022). Consolidation and Capacity of the Top 5 may come about through, merger, acquisition, or investment from Entities in Southeast Asia and China; Sovereign Wealth Funds; Private Equity Firms; and Continental European Players.

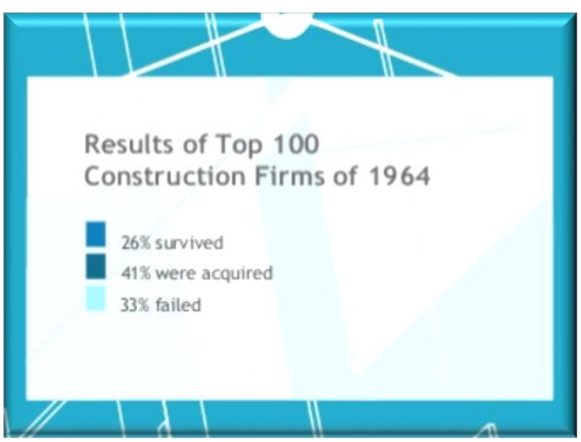
Crystal Ball predictions no more, until someone takes the lead, to make it reality.

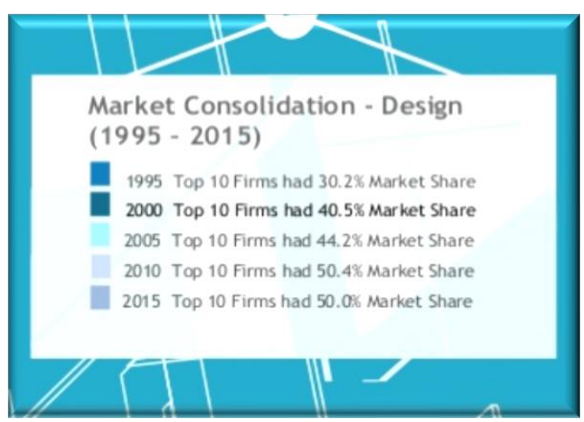
THE US EXPERIENCE

CORPORATE LIFE CYCLE OF US CONSTRUCTION & DESIGN SINCE 1960's

Source: VERTEX







The UK Industry mirrors somewhat the US changes since the 1990's. Subtle Strategic changes and primarily organics growth characterised the early "planned leadership" of the UK's Captains of Industry and their firms, Godfrey Mitchell (Wimpey), Lord Taylor (Taylor Woodrow), etc.

But failure to adjust to market and economic shifts and bureaucratic second generation management blighted these giants in the 1970s's.

By the 1980's Contractors had become Developers and both were high risk, Development gave more reward, until the economic cycle catches up with them, as it did in the UK in the early 1990's.

But Construction as a non-primary sector of a diversified group did not work in the long-run (viz: Trafalgar House, Tarmac, Wimpey). They started life as the cash cows fuelling speculative investment in capital intensive Development, then became the victims of sell-offs, divestments, asset swaps and market exit (eg. Wimpey, John Laing, Amec, Trafalgar House).

As in the US, the Design Firms lead the trail of M&A, because that is the main engine for their growth.

Nevertheless, there were some very successful acquisitions in the Construction Sector over the period 1965-2015, mostly involving European and UK acquirers:

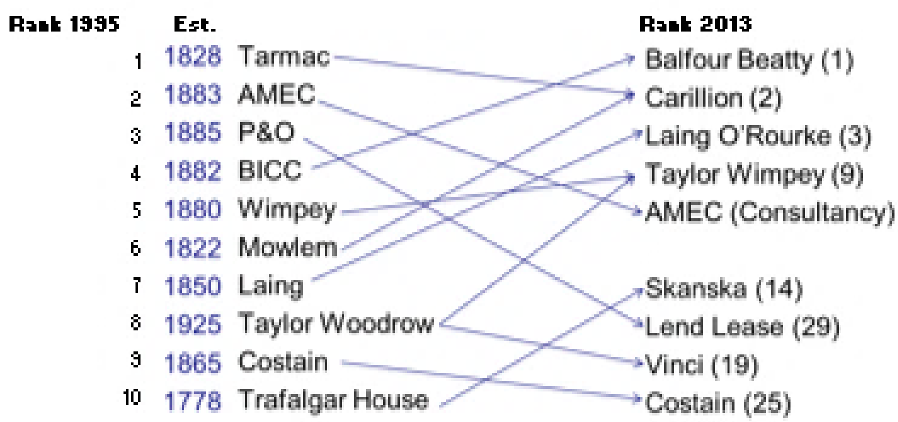
- Hochtief acquired Turner Construction (1999).
- Daniel Construction was acquired by Fluor (1977), making it No 1 in the world.
- Balfour Beatty acquired Centex (2007)
- Balfour Beatty acquired Fruin-Colnon Contracting from Bilfinger (2011).
- AECOM bought Huber, Hunt & Nicholls (2014).
- Beacon Construction was acquired by Skanska (1996)

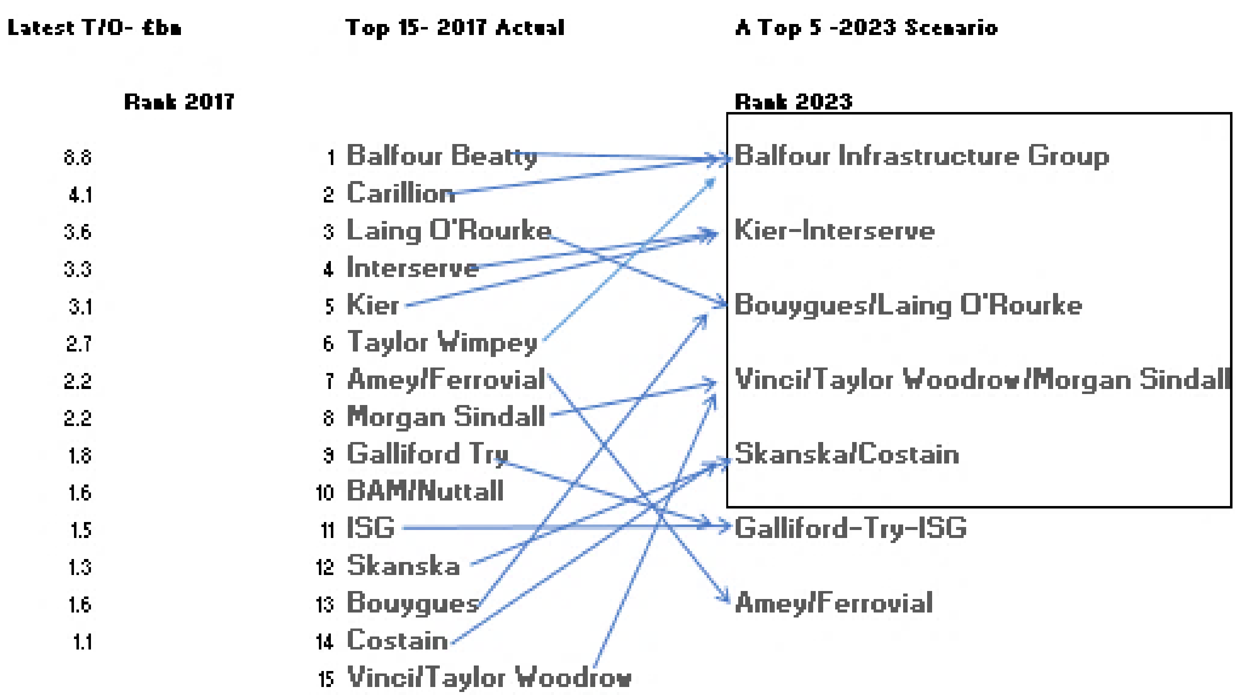
SCENARIOS OF TOP 5 UK CONSTRUCTION COMPANIES CONSOLIDATION

- **(Actuals) 20 Years of Actual Changes at the TOP 10-10 in the UK (1995-2015)**
- **(Scenarios) 5 Years of Possible Changes at the TOP 5-15 in the UK (2017-2022)**

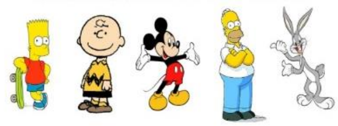
By 2020, according to predictions by *Ernst & Young* (UK Construction- Consolidation ahead Report, 2015) the structure of the construction industry will change radically, and they see significant consolidation ahead as the cause. This might be led by the handful of high-quality operators that exist today but may be initiated by interest from overseas. Entities from Southeast Asia, Sovereign Wealth Funds or continental European operators are all likely interested parties (refer to Chapter 7- Potential investors and third parties). The result would be a very different industry, one that could contain as few as five leading players, each with revenue in excess of £5b, return on invested capital (RoIC) of 5%+ and a likely £50m minimum project threshold.

One potential Scenario is drawn-up below.





(Please Refer to Merger Scenario Conclusions, end of Chapter)



TOP TEN EY CHARACTERISTICS OF EXAMPLE MAJOR GROUP

Source: EY, Construction Consolidation ahead, 2015

An Industry M&A Success Story

Amec's merger with Foster Wheeler (now vering into EPC not just Engineering Services), not featured above, should not be understated, and can be labelled as one of the leaders of change. Amec has transformed itself from an ailing general contractor in 2006 to become a Global EPC company active in the wider International Engineering Sectors. While the UK Major Construction Groups like Balfour Beatty, Laing O'Rourke and Carillion may one day aspire to diversify into Global EPC, neither their current skills set, financial strength, nor business portfolios currently afford them to do so. EPC is a high risk business that needs significant scale to assume the "full wrap" of EPC risk. Those who don't will not survive. In the 1980's Davy Group fell into demise over one offshore project. Brown & Root, Trafalgar House and Kvearner are all names in the succession of EPC pursuit which faltered. Should the UK major Construction Groups harbour such strategic intent, it is the Author's view that they should look at consolidation and balance sheet strengthening in their UK market first. Balfour Beatty and Carillion have joint overseas exposure in US, Canada and Middle East, and these are platforms for geographical growth and development. Likewise, Interserve, Laing O'Rourke and Kier/Mouchel to a lesser extent, have some Middle East and broader overseas experience. Companies like Amey, Nuttall, and Taylor Woodrow Construction, already have foreign ownership. Bouygues, Skanska, and ACS/Dragados could also be habouring intent of investment in UK Groups. Skanska had a shareholding strategic relationship with Costain in the past; and Dragados and Hochtief (ACS) have been active in seeking Joint Ventures in Major Projects. The UK housing market in the years to come should not be overlooked either, and for this reason, Taylor Wimpey is included in the scenarios, as one of the leaders in the sector, and who coincidentally hailed from two large contracting Groups of the past, when contracting businesses helped provide the cash flow for organic growth of housing and property development arms.

CASE STUDY 1- AMEC FOSTER WHEELER M&A DIVERSIFICATION SUCCESS STORY

Visionary Global Leader of his time

Source: Wikipedia- Samir Brikho

Amec was transformed under the inspired leadership of Samir Brikho, Chief Executive, commended in this Report for his vision and leadership. During his tenure at Amec Foster Wheeler, Brikho was widely credited with a major turnaround of the company. The company's share price rose from under 400 pence when he assumed the role of CEO in October 2006, to over 1,200 pence in June 2014. At the beginning of his tenure, Brikho also secured the confidence of the board in rejecting a £1.5bn, or 450p a share, cash takeover offer from private equity groups Texas Pacific and First Reserve Corporation. In December 2007, the company was moved from its ranking within the FTSE 250 Index to the FTSE 100 Index, a promotion which was credited to Brikho's streamlining of the business, and a number of major divestments which left £600m of cash in the company, and over £1bn of capital for acquisition. He served until 18 January 2016 when he stepped down, and was succeeded by Ian McHoul, the Chief Financial Officer, on interim basis.

AMEC was formed from the 1982 amalgamation of Leonard Fairclough & Son (founded 1883) and the William Press Group(founded 1913). In 1988, AMEC went on to acquire Matthew Hall Group. In 1996, AMEC took a 40% stake in Spie Batignollesfrom Schneider in association with a management buyout. Amec launched the AMEC SPIE brand for engineering services in Europe, a rail construction business AMEC Spie Rail was created, and the remaining construction business was retained as Spie Batignolles.The company announced that it would seek to sell the construction arm of the business Spie Batignolles, and entered negotiations to secure a management buyout of that division; the management buyout of the construction arm of Spie was completed in September 2003 with the aid of Barclays Private Equity Finance and later that year Amec took full control of the remaining parts of Spie.

Acquisitions in the new millennium included Ogden Environmental & Energy Services and AGRA Monenco Inc., a North American engineering and services company, both in 2000 as well as the U.S. operations and equipment of Lauren Kamtech in 2003. Then in 2004, AMEC was awarded a contract to assist in the reconstruction effort in Iraq, as part of a joint venture with Fluor Corp.

In 2005, AMEC acquired UK-based NNC, a large nuclear consulting company and its subsidiaries, including Ontario-based Nuclear Safety Solutions ('NSS'), the nuclear safety division of OPG, which was spun off when OPG was privatised. The European engineering business, AMEC SPIE, was sold to PAI Partners for €1,040 million in 2006 and the European rail business joint venture Amec Spie Rail systems was sold for an estimated £200million in 2007, to Colas Group.

In 2007, AMEC sold its UK construction arm to Morgan Sindall and in 2008, it sold its internal plant hire division to Speedy Hire before buying project services company Rider Hunt International, North American environmental consulting firm Geomatrix Consultants, Inc., and Slovakian nuclear services company AllDeco.

In 2009, AMEC acquired Performance Improvement Group, Journeaux, Bedard & Associates and GRD Limited and in 2010, it continued to expand with the £61.2 m purchase of Entec UK, one of the UK's largest Environmental Consultancies. The company also acquired Australian-based businesses Currie and Brown (Australia) and Burman Griffiths and acquired a majority stake in S2V Consulting.

In 2011, the company acquired US-based BCI Engineers & Scientists, Inc., MACTEC, a US-based engineering consultancy company, and Zektin Group, an Australian-based specialist engineering consultancy for the oil and gas and resources industries.

In January 2014, AMEC provisionally agreed a £1.9bn takeover of Swiss rival Foster Wheeler. AMEC completed its purchase of Foster Wheeler on 13 November 2014 and simultaneously changed its name to Amec Foster Wheeler plc.

Amec Foster Wheeler employs over 40,000 people in more than 55 countries, including Afghanistan, Australia, Azerbaijan, Brazil, Canada, Chile, China, India, Kuwait, Qatar, Peru, Poland and the United States.

The company has three geographic business units covering engineering and project delivery operations – Americas (>50% turnover) Northern Europe & Commonwealth of Independent States (33%); Asia, Middle East, Africa & Southern Europe - and one power equipment business unit operating worldwide - The Global Power Group.

Amec-Foster Wheeler is a Global Engineering company looking to the future. Everybody likes at least one success story.

amec foster wheeler

TOP 5 MAJORS AND THE M&As OF THE PAST 30 yrs

(THE WIMPEY – TARMAC – TAYLOR WOODROW – BALFOUR BEATTY LEGACIES)

TAYLOR WOODROW

Taylor Woodrow was founded in 1921 by 16-year-old Frank Taylor, who borrowed some money to build two houses in Blackpool. As he was too young to form his own company, his uncle Jack Woodrow lent his name to the business, and so it became Taylor, Woodrow Limited.

In the 1930s, Taylor Woodrow diversified into building temporary hospitals etc., and thereby moved into general construction. Taylor Woodrow's main operations were in general construction with Taylor Woodrow Homes only being a small part of the Group: indeed, housing sales actually declined and at the beginning of the 1980s Taylor Woodrow Homes was still only building around 500-600 houses a year.

In January 2001 this changed as Taylor Woodrow acquired Bryant Group, a business founded in Birmingham in 1885 by Chris Bryant, for £556 million and in October 2003 Taylor Woodrow acquired Wilson Connolly in a cash and shares deal worth £499 million.

In September 2008 Vinci bought the UK operations of Taylor Woodrow Construction and in April 2009 the remaining activities of Taylor Woodrow Construction in Ghana were sold to management. Then in March 2011 a property investment group backed by private equity firms acquired Taylor Wimpey's American and Canadian housebuilding businesses.

Today's large Housing Group, Taylor Wimpey, was then created on 3 July 2007, from the merger of rivals Taylor Woodrow and George Wimpey

(Please Refer to Appendix XIII)
GEORGE WIMPEY

George Wimpey and Walter Tomes (the latter sold out in 1893) established a stone-working partnership in 1880 in Hammersmith. George Wimpey died in 1913 at the age of 58. His family put the business up for sale in 1919. Godfrey Way Mitchell, coming back from World War I, bought the firm and decided to retain the Wimpey name. George Wimpey completed its first residential development, the Greenford Park Estate, in 1928.

By the 1970s George Wimpey had become a "Contractor to the World" and the largest Civil and Building contractor in the UK. It also became the UK's largest private house builder selling 106,440 homes in the decade.

In 1996 George Wimpey acquired McLean Homes, a business founded in the 1934 by John McLean, from Tarmac, in a £344m Asset Swap of Wimpey's Contracting and Minerals Businesses for Tarmac's Housing Business. In 2001 McAlpine Homes was acquired from Alfred McAlpine in a £463 million deal and in 2002 George Wimpey went on to acquire Laing Homes, a premium housebuilder, from John Laing for £295 million.

Wimpey's Mineral Businesses eventually became part of the Anglo American-Tarmac Business, and Wimpey Construction's Businesses were absorbed into Carillion in 1999, after the de-merger of the Construction and Support Services Business from the Tarmac Group following the Asset Swap in 1996.

TARMAC

The company was originally formed by Edgar Purnell Hooley as the Tar Macadam (Purnell Hooley's Patent) Syndicate Limited in 1903. The distinguishing feature of the new process was that it "tarred" cheap blast furnace slag, a steelworks by-product, rather than expensive roadstone and the Company entered into long term contracts with steelworks to ensure its supply.

The business was secured in 1905 by Sir Alfred Hickman, who became its first Chairman. The Company remained under the effective control of members of the Hickman and Martin family until 1979. There were Hickmans as Chairmen until 1959; more significantly, Cecil Martin, the son-in-law of Victor Hickman, was appointed a director in 1923 and managing director two years later. Cecil's son Robin followed him in turn, serving first as managing director and then Chairman and Chief Executive from 1971 to 1979, when Tarmac encountered problems with overseas losses, and brought in McKensey's to advise on restructuring the business.

Tarmac was first listed on the Birmingham Stock Exchange in 1913 and then the London Stock Exchange in 1922. During the 1920s and '30s Tarmac had to cope with national strikes, recession and periods of intense competition. Nevertheless, the Company gradually expanded its geographic coverage (particularly in the south-east), increased its production of paving slabs and moved into road surfacing as well as supply. As with so many companies in the construction industry, World War II increased the demand for Tarmac's services, notably for surfacing the large numbers of airfields being built or modernised. By the time of its half centenary in 1953, Tarmac was processing over 2 million tons of slag a year, its road surfacing had developed into a significant civil engineering business, and its Vinculum subsidiary had become one of the major precast concrete undertakings in the country.

Under Robin Martin's leadership, Tarmac moved from being an important regional force to a national roadstone and contracting business. Acquisitions played a major role in Tarmac's growth. While leading the roadstone division, Martin had been responsible in 1959 for the acquisition of local competitor Tarslag and Crow Catchpole, which gave it a greater presence in the south east. In 1964, then group managing director, Martin acquired key quarrying assets, including Cliffe Hill Granite, Rowley Regis Granite and Hillhead Hughes. In 1968 Martin engineered the three way merger between Tarmac, Derbyshire Stone and the Scottish Asphalt company, William Briggs, creating the country's "largest roadstone and construction group". The group was briefly known as Tarmac Derby but the Derby name was later dropped.

Further acquisitions were to come. Permanite, Britain's biggest roofing-felt manufacturer, and Limmer, a quoted asphalt company, were bought in 1971, while the 1973 purchase of Mitchell Construction strengthened the construction division. However, the acquisition which was to radically change the direction of Tarmac was McLean Homes bought at the beginning of 1974, to develop Tarmac as a major player in the Housing Sector.

McLean was run by Eric Pountain, a one-time estate agent who had sold his own housebuilding business to McLean, later taking over as managing director in a boardroom coup. McLean had been bought to strengthen Tarmac's own poorly performing housebuilding division and the enlarged operation, run by Pountain, was producing around 2,000 houses a year at that time.

Pountain had ambitions to become a national housebuilder and by the end of the 1970s McLean was building 4,000 houses a year and a substantial contributor to group profits. However, there were problems elsewhere in the group. In 1976 Tarmac had bought the old-established contracting firm of Holland, Hannen & Cubitts; this was followed by contract provisions of £16m in its Nigerian subsidiary. The head of the contracting division, William Francis, was dismissed and the finance director resigned. The boardroom pressure on Martin increased and in 1979 he was forced out to be replaced by Eric Pountain as the new group managing director. Whereas Martin had created a national roadstone group, Pountain was to create the country's largest housebuilder

By the end of the 1980s, UK housebuilding was accounting for half of group profits but it was not the only activity to have been expanded. An alternative profits centre had been built up in the USA, starting in 1984 with the staged acquisition of Lone Star Industries; by the end of the decade Tarmac was operating across seven US states. UK construction had also grown and Tarmac was involved in such prestige projects as the Thames Barrier and the Channel Tunnel.

However, the expansionary nature of the group did not leave it well placed to face the recession of the early 1990s. In particular, the housing division continued to invest heavily in land even though the market had peaked, leading to provisions of £132m in that division alone. Like his predecessor before him, Pountain was forced to step down as chief executive to be replaced by Neville Sims, previously in charge of construction. Considered inevitable by some, the emphasis moved away from housing in favour of construction.

Housebuilding was progressively reduced in size until 1995 when Tarmac announced that the division would be sold. Later that year, Tarmac and Wimpey announced an asset swap whereby Wimpey acquired all of Tarmac's housing and in return Tarmac received Wimpey's construction and minerals divisions. The downsizing continued and in 1999 Tarmac demerged its construction business under the name Carillion. Months later, Tarmac, then back to its roots as a roadstone and road surfacing business, accepted a bid from Anglo American Mining.

In August 2007 Anglo American announced it was to sell the business but in February 2008 went on to report that it was putting the sale on hold. In June, Tarmac Iberia was sold to Holcim.

In 2010, Anglo American sold Tarmac's European concrete aggregates business to Eurovia; it also sold its Polish concrete products business to the private equity firm Innova Capital. A few months later, the French concrete products business was sold to the private equity firm Foundations Capital.

In 2011, Anglo-American announced a proposed joint venture with Lafarge that involved combining both companies' UK aggregates businesses. The merger, which excluded Tarmac Building Products, was completed in March 2013 following receipt of necessary approvals from the UK Competition Commission, forming Lafarge Tarmac. Tarmac Building Products, the last part of the business still wholly owned by Anglo-American, was acquired by Lafarge Tarmac in April 2014

CARILLION

Carillion was created in July 1999, by the demerger from Tarmac; the new company included the former Tarmac Construction contracting business and Tarmac Professional Services; and the Wimpey Construction businesses acquired at the time of the Asset Swap. These included overseas businesses in Canada, the Middle East and Caribbean.

In September 2001, Carillion acquired the 51% of GT Rail Maintenance it did not already own, thereby creating Carillion Rail. In August 2002, Carillion bought Citex Management Services for £11.5 million and, in March 2005, it acquired Planned Maintenance Group for circa £40 million.

After that, in February 2006, Carillion went on to acquire Mowlem, another United Kingdom support services firm, for circa £350 million and in February 2008, it acquired Alfred McAlpine, yet another United Kingdom support services firm, for £572 million. Then, in October 2008, Carillion bought Van Bots Construction in Canada for £14.3 million.

In April 2011, Carillion bought Eaga, an energy efficiency business, for £306 million and in December 2012, it acquired a 49 per cent interest in The Bouchier Group, a company providing services in the Athabasca oil sands area, for £24m. Then, in October 2013, the company bought the facilities management business of John Laing.

In August 2014, the company spent several weeks attempting a merger with rival Balfour Beatty. Three offers were made; the last bid, which valued Balfour Beatty at £2.1 billion, was unanimously rejected by the Balfour Beatty board on 19 August 2014. Balfour refused to allow an extension of time for negotiations which could have prompted a fourth bid. Carillion subsequently announced the same day it would no longer pursue a merger with its rival. In December 2014, Carillion acquired a 60% stake in Rokstad Power Corporation, a Canadian transmission and distribution business, for £33 million.

Carillion acquired 100% of the Outland Group, a specialist supplier of camps and catering at remote locations in Canada, in May 2015 and a majority stake in Ask Real Estate, a Manchester-based developer, in January 2016

BALFOUR BEATTY

Balfour Beatty was formed in 1909 with a capital of £50,000 (2012:£4,410,000) – an exceptionally large sum for the time. The two principals were George Balfour, a qualified mechanical and electrical engineer, and Andrew Beatty, an accountant, who had met while working for the London branch of the New York engineers JG White & Company. Initially the Company concentrated on tramways, the first contract being for the Fife Tramway Light and Power Company at Dunfermline; its general construction expertise was extended during World War I with, for example, army camps.

George Balfour was elected to the House of Commons in 1918 and played a large part in the debates which established the National Grid. To service this new market, George Balfour, Andrew Beatty and others formed Power Securities to finance projects and the two companies, with their common directors, worked closely together. Balfour Beatty was heavily involved in the development of Scotland's hydro-electric power, building dams, transmission lines and power stations. Other work between the wars included the standardisation of the electricity supply in Derbyshire and Nottinghamshire, and the construction of tunnels and escalators for the London Underground. Extensive overseas work started in 1924 when Balfour Beatty took over the management of the East African Power & Lighting company; construction work included hydro-electric schemes in the Dolomites, Malaya and India; power stations in Argentina and Uruguay and the Kut Barrage on the Tigris in Iraq.

By World War II, control of the firm had passed on: Andrew Beatty had died in 1934 and George Balfour died in 1941. Construction work was then dominated by the war effort and notable projects included blocking the approaches to Scapa Flow and the building of six Mulberry harbour units. Peace saw a resumption of Balfour Beatty's traditional work, power stations and railway work dominating at home. Overseas, a construction company was bought in Canada in 1953. In 1969 Power Securities, which by then owned Balfour Beatty, was taken over by cable manufacturer BICC. Then in 2000 BICC, having sold its cable operations, due to poor management foresight of the Fibre Optics market, renamed itself Balfour Beatty, effectively via a Reverse Takeover.

Balfour Beatty moved away from its traditional area of expertise in 1986 when it formed Balfour Beatty Homes, building on a modest scale from its office in Nottingham. It also opened offices in Paisley and Leatherhead and in 1987 bought the Derbyshire firm of David M Adams to give it an annualised production rate of 700 houses. Little more than a year before the housing market collapsed, through its parent BICC, Clarke Homes was bought for £51m, giving housing sales of over 1600 in 1988. By the mid-1990s, sales were down to only 500 a year and although no financial figures were ever published, the housing operation was believed to have suffered heavy losses. Balfour Beatty Homes was renamed Clarke Homes and then sold to Westbury in 1995

Balfour Beatty had embarked on a series of acquisitions including Mansell plc, another construction services business, for £42m in 2003, Birse plc, a UK construction & Civils contractor, for £32 m in 2006, Centex Construction, the commercial construction division of the US builder Centex, for £180m in 2007 and Cowlin Construction, a UK construction company based in Bristol also in 2007. In 2008 the Company bought GMH Military Housing, a US-based military accommodation business, for £180m and Dean & Dyball, a leading UK regional contractor, for £45 million. In September 2009 the Company agreed to buy Parsons Brinckerhoff, a US-based project management firm, for $626 million. In October 2010 the company bought Halsall Group, a Canadian professional services firm, for £33 million and then in November 2010 the company bought the remnant of collapsed UK construction company ROK plc for £7 million.

In June 2011 it went on to buy Howard S. Wright, one of the oldest contractors on the West Coast of the United States, for £58 million as well as Fru-Con Construction, a US water and wastewater contractor, for £12 million. Then in January 2013 it bought Subsurface Group, a US consulting and engineering firm.

In mid-2014, the company rebuffed three offers by rival Carillion for the two companies to merge. The last bid, which valued Balfour Beatty at £2.1 billion, was unanimously rejected by the Balfour Beatty board on 20 August 2014, one day before a deadline for negotiations to conclude. Balfour refused to allow an extension of time for negotiations which could have prompted a fourth bid. Carillion subsequently announced it would no longer pursue a merger with its rival.

The company sold Parsons Brinckerhoff to WSP Global for $1.24bn in October 2014.

5.2 STRATEGIES INTO M&A ACTION

TOP 5 MAJORS M&As OF THE FUTURE (2017-2022)
WHO MIGHT COMBINE TO FORM A FUTURE:
MEGA BRITISH INFRASTRUCTURE GROUP

WHAT WOULD CONSTITUTE THE MODEL MERGED COMPANY

- Large Revenue Base, a construction company with Global Reach and Capacity to undertake Mega Projects.
- Geographically Diversified (3 Pillars: Americas, UK & Europe, Middle East)
- Diversified outside Construction General Contracting (Support Services, PPP, Private Housing Development)
- Strong Balance Sheet, low Gearing, Ability to Raise Finance
- Above average industry Profit Margin
- Substantial Human Resources/ Professional Skills Sets
- Strong Market Capitalisation to Net Book Value Ratio
- Above average Return on Equity
- Disciplined Operating Model
- Recurring Revenue Streams, Long Term Contracts
- Low Overhead to Turnover Percentage Ratio
- Balanced Portfolio Cash Flow, self-funded Growth Potential
- Strong Blue-Chip, Global Customer Base
- Ability to further Internationalise Capabilities & Presence
- Strong Corporate Strategy backed by further M&A
- Strongly Monitored Working Capital Performance, Project Auditing
- Manageable Revenue Risks & Flexibility to Change & Economic Cycles: Regional Economies, Customers, Market Sectors, Competition, Pricing
- People Management as a Priority

Source: Think Big Partnership

COMPANY FOCUS:

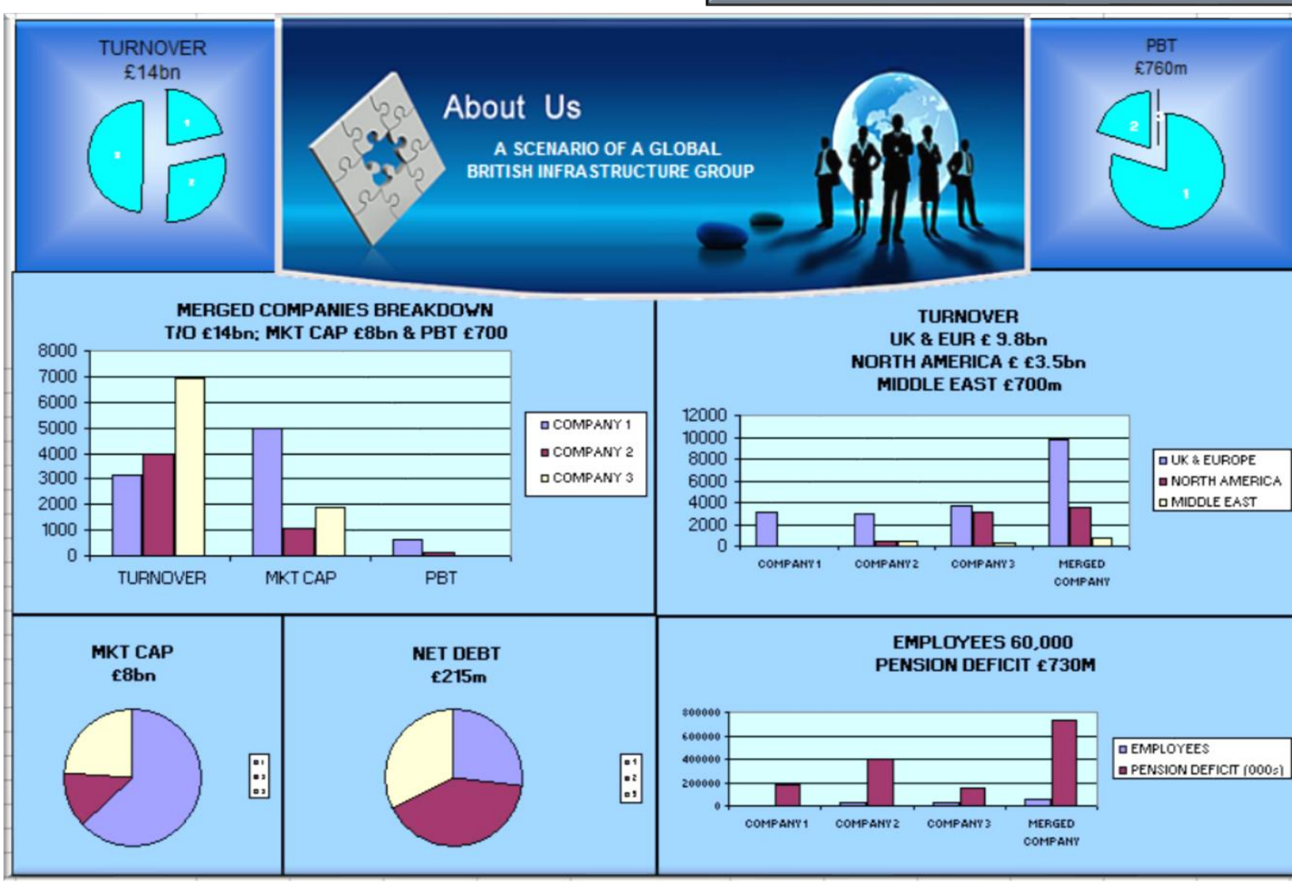
A Diversified International Conglomerate Involved in:

Exhibiting:

- Leadership
- Corporate Strategy
- Sound Financial Fundamentals
- Customer Focus
- Operational Efficiency
- People, Employee Friendly

(PTO) "The Scenario below and over the page, is an example for a transformed Group with a 2018 Target of £15bn in Revenues, 50% derived from Overseas, 60% Non-Construction, with overall 10% Margins delivering £1.5bn PBT, and Capitalised at £10bn."

ONE SCENARIO (For Illustrative Purposes Only)

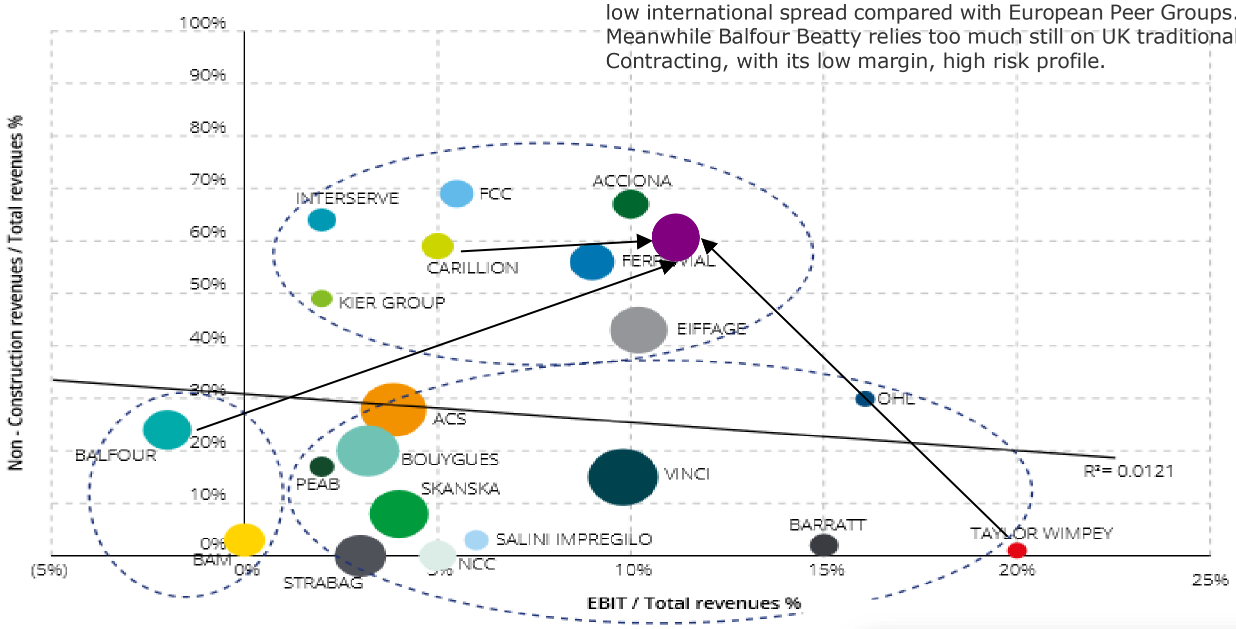


Does International & Non Construction Diversification Pays Dividends

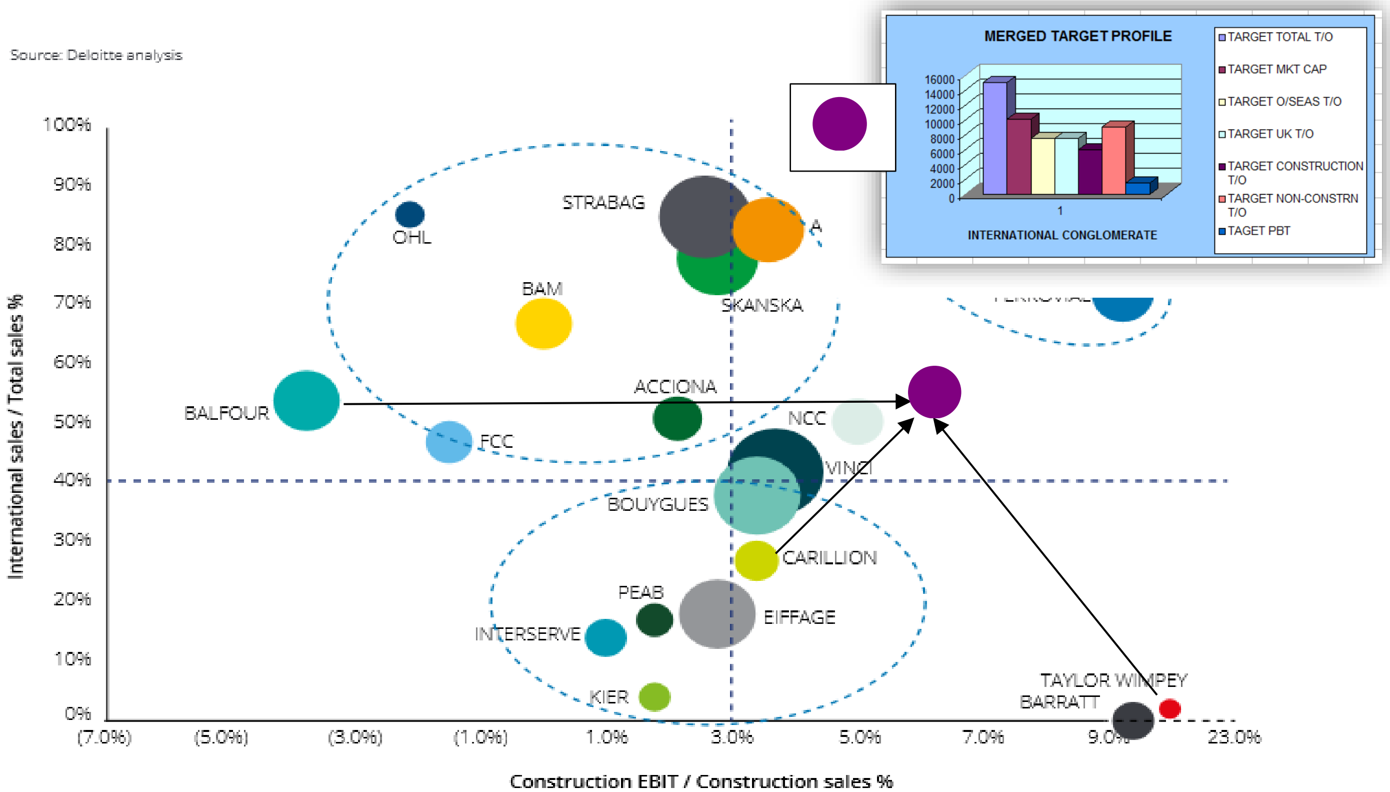
As mentioned in the Deloitte's Study on the European Majors, it seems there is a not surprising correlation between Margins and those Companies diversified away from General Contracting. While this is to be expected, it must be recognised that PPPs and Housing Development, for example, employ much higher levels of Capital, so Returns on Capital Employed are relevant for comparison.

But Diversification, generally, has proved fruitful for Companies. Maybe Ferrovial (see Page 147), is the Company to emulate, which has transformed itself from a General Contractor in Spain in 1990 to the most successful of Diversified Groups in terms of Non Construction Revenue, and International Turnover (Real Estate, Concessions, Industrial Services, etc).

UK Groups like Taylor Wimpey are high margin, but exposed to UK Economic Cycles, with little overseas Diversity. Carillion has diversified away from pure contracting but also has a relatively low international spread compared with European Peer Groups. Meanwhile Balfour Beatty relies too much still on UK traditional Contracting, with its low margin, high risk profile.



Source: Deloitte analysis



WHAT WOULD CONSTITUTE A GOOD INVESTMENT MODEL TO ACHIEVE DIVERSIFICATION ON THE SCALE REQUIRED.

International & Non Construction diversification has paid dividends for several European Major International Conglomerates. Taking into account the different levels of internationalisation and diversification achieved by the most significant European EPC Groups in terms of total sales, four main categories were identified by *Deloitte* in their Publication-European Powers of Construction:

Domestic construction groups
This category is composed of companies that are mainly focused on construction related activities carried out in their domestic markets, such as Taylor Wimpey.

International construction groups
This category is represented by construction groups with a relatively low level of diversification that obtain more than 40% of their total revenue beyond their domestic markets. Examples are Vinci, Skanska and Balfour Beatty.

Domestic conglomerates
The "Domestic conglomerates" category is represented by companies that have diversified their business portfolio to non-construction activities but conduct most of their business in their respective local markets. This would include for example Kier and Carillion.

International conglomerates
The "International conglomerates" category, now represented by three companies, is composed of groups with highly diversified portfolios and a strong international presence. Ferrovial is the embodiment of this favourable fully diversified International Conglomerate Model.

Source: Think Big Partnership

Ferrovial (see Case Study 3) became embroiled in a plethora of Meg-Deals, mostly in Airport Concessions, as it firstly embarked on its journey of predominantly Debt Financed aggressive M&A, but then "traded" many investments on-route to exit businesses according to the market or as the regulator might have required, and refinanced for on-ward investment.

The scale and number of some of these transactions made by Ferrovial and its subsidiary BBA are staggering.

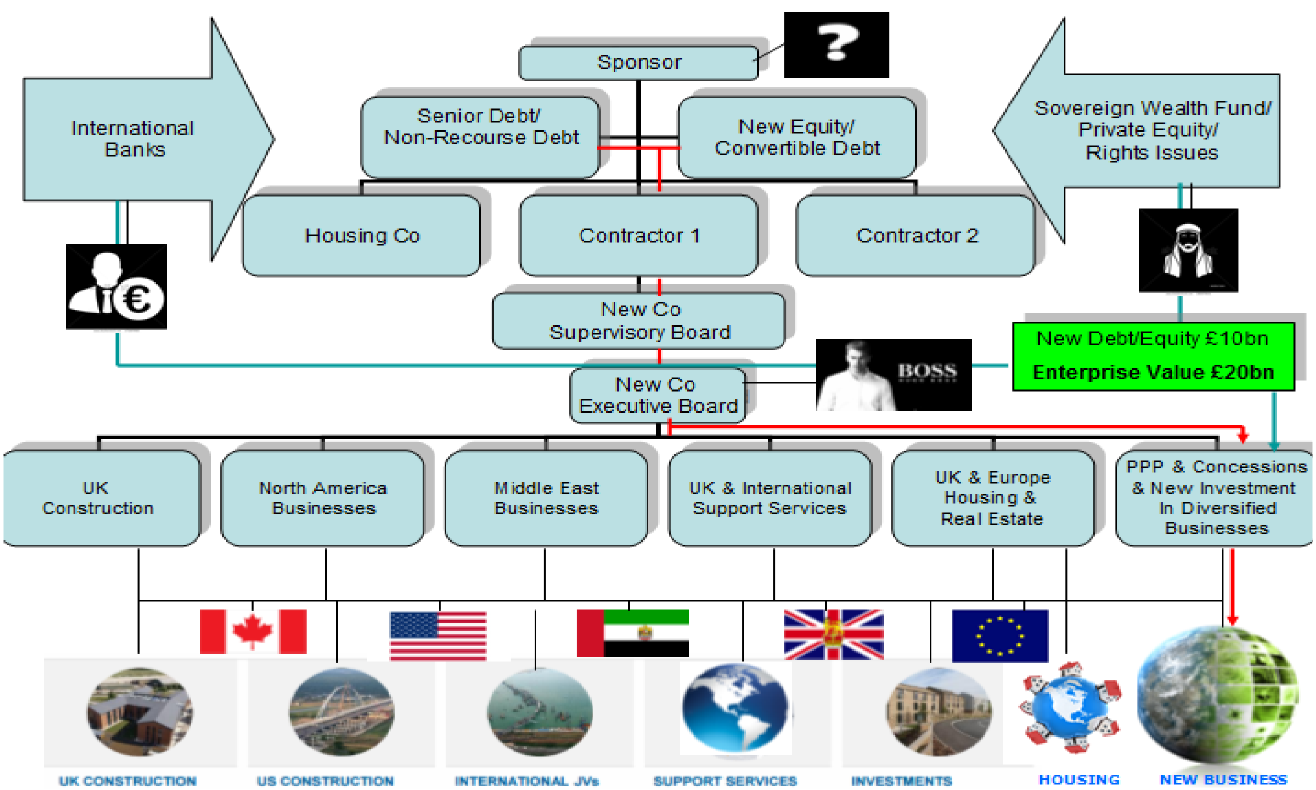
Acquisitions included: Budimex (Poland), Bristol Airport (UK), Sydney Airport (Australia), Amey (UK), Webber (USA), SwissPort International (USA), BAA for £10bn (UK), and Enterprise from 3i for £385m (UK).

Receipts from disposals were impressive, recouping nearly all £10bn, in spin-off subsidiary sales, including:

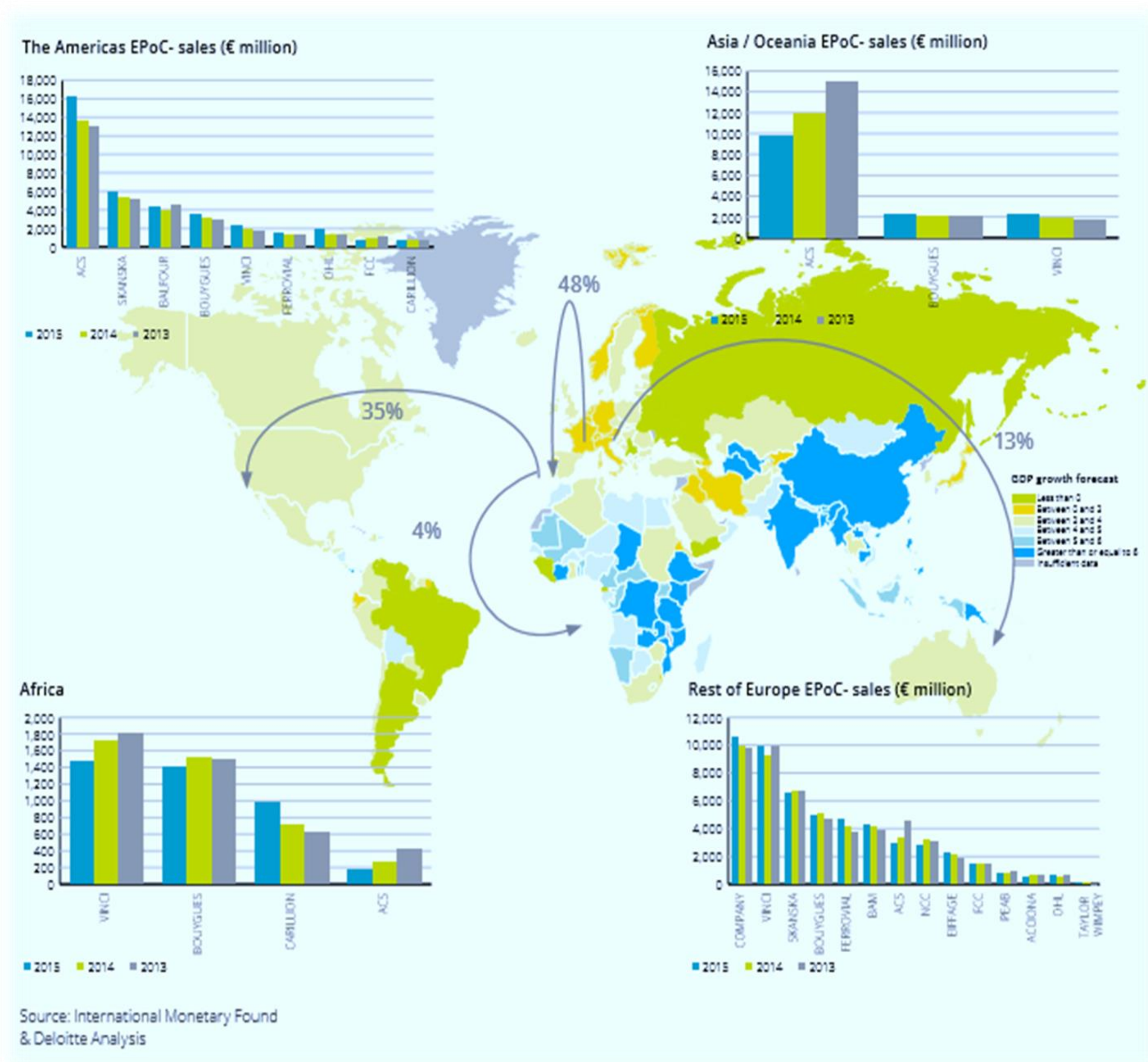
Sydney Airport	A$ 1bn
Budapest Airport	£1.3bn
Australian Airports (BAA)	£495m
World Duty Free	£547m
Airport Property Partnership	£265m
Belfast Airport	£133m
Cintra Carparks	£451m
London Gatwick	£1.5bn
Cintra Chile	£209m
PPP Tube Lines	£310m
Autopistas Trados	£67m
Edinburgh Airport	£807m
London Heathrow (10%)	£478m
Stanstead Airport	£1.5bn

Whatever, the UK's future lead Construction Group decides to do, it should think carefully about its funding model, and the sectors in which it decides to invest over time.

ONE SCENARIO

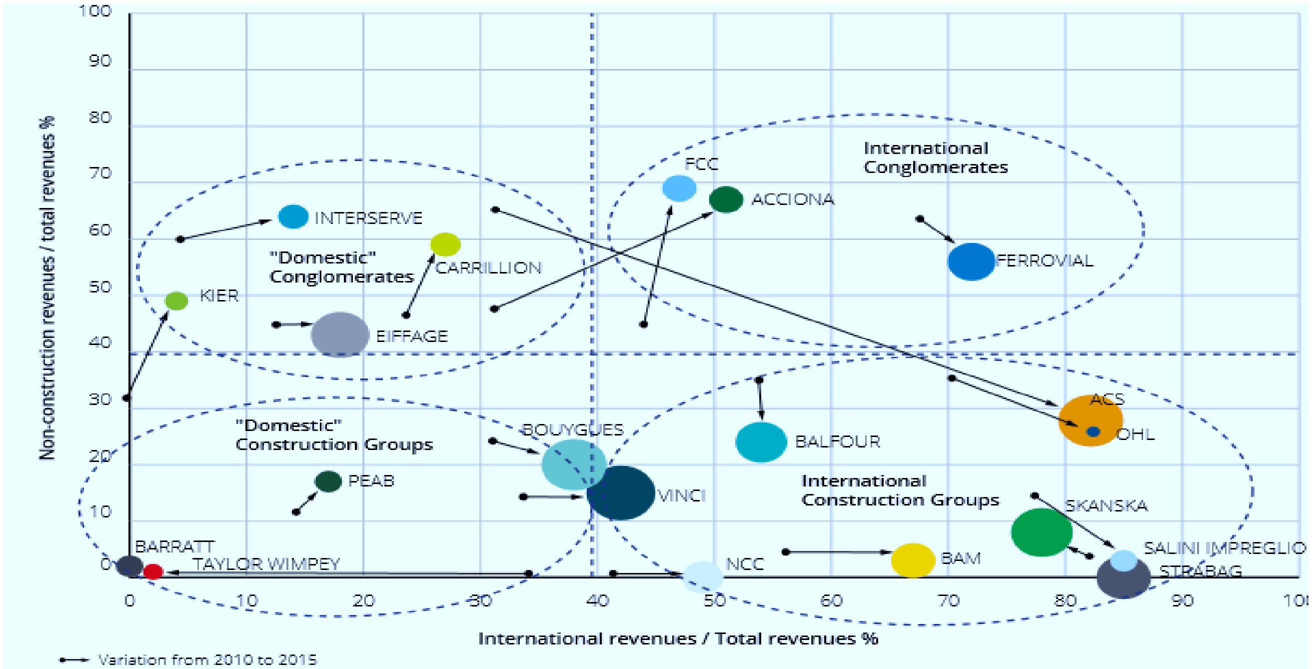


Measure of Internationalisation of European Majors



NOTE: Caveat

While international opportunities for Large European Construction Groups are significant and continue to increase as the years go by, construction has traditionally been considered to be a local business. International projects carried out by European construction companies have sometimes given rise to negative experiences in both the past and present. In this context, companies should be aware of the difficulties they may face in order to make their international contracts profitable. The careful pre-selection of target countries and projects, acquiring a sound understanding of customers and subcontractors and assessing the convenience of working with local partners and/or acquiring local operators are key factors that may impact on the traditional narrow margins of construction activities. Therefore, the success of companies when performing business abroad is highly dependent upon gaining a proper understanding of the characteristics of each individual international market. Better Risk and Reward Profiles are often attained by combining Geographical Expansion with Diversification outside Construction. There are examples at most of the International Conglomerates like Vinci (e. Car-park Concessions) and Ferrovial (eg. Airport Concessions).



Source: Deloitte analysis

DIVERSIFICATION THE ROUTE TO STABLE PROFITABLE GROWTH

The Comparisons of levels of Diversification of European Groups (both into Non-Construction Activity and Internationalisation) are explored in the *Deloitte* Report (See Chapter 8). A good conclusion to draw , however, is that the "International conglomerates" category (as categorised by Deloitte), and now represented by three companies, is composed of the most forward thinking and aggressive groups with historic M&A Strategies to achieve highly diversified portfolios and a strong international presence.

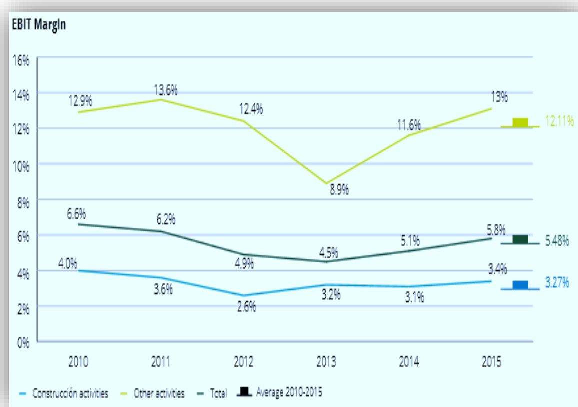
In 2015 only three Spanish companies (Acciona, FCC and Ferrovial) were included in this group. The growth achieved by these players in the international marketplace offset the contraction noted in their local market, which was severely affected by the economic recession.

Ferrovial is again depicted as a successful model. The Spanish group ranked 8th in terms of total sales and 2nd in terms of market value, obtained 56% of total sales from non-construction activities and 72% from international operations. In May 2016, the Group strengthened the position of its services division with the acquisition of Broad spectrum, an Australian listed company with EUR 2,641 million in sales in 2015 that will increase its internationalisation and diversification levels even further in the coming year.

With regards to EBIT Profit Margins UK housebuilders (eg. Taylor Wimpey and Barratt Developments) recorded the highest construction margins, followed by Ferrovial, which recorded the highest margins among all companies mainly focused on civil engineering and industrial activities.

Ferrovial has demonstrated the most aggressive and successful Diversification Programme, followed by ACS, which focused more on Acquiring and Merging Major Spanish and Foreign Construction Groups as its strategy to achieve market dominance.

Comparison of EBIT Margins Construction v Non Construction



Source: Deloitte

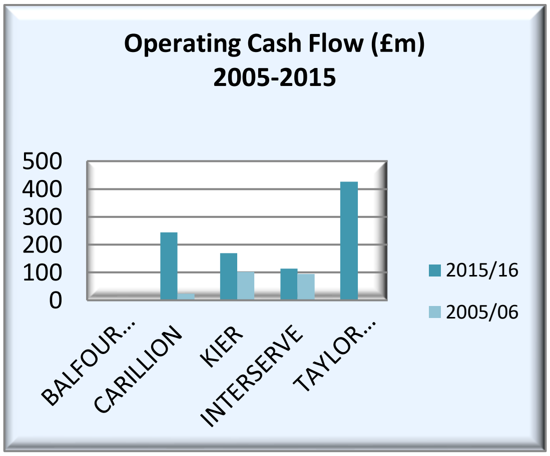
"The message to UK Groups is one that I trust resonates throughout this voluminous Report:

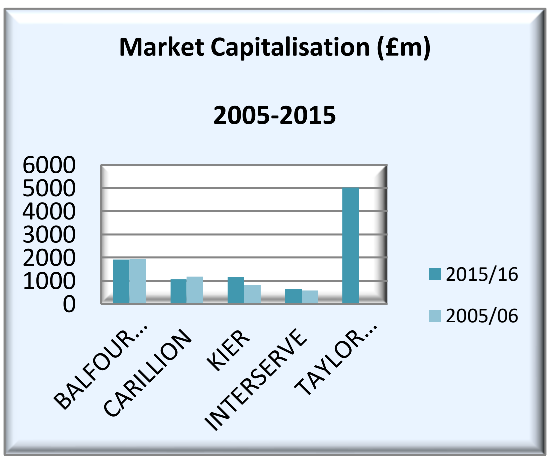
- *Consolidation is necessary and best achieved through Domestic Mergers between the strongest Groups which will benefit from Synergies and strengthened Balance Sheets*
- *Post Consolidation, the emphasis should shift to new Diversification in terms of Non-Construction Activity and Geographical expansion.*

Those Groups with the strongest current market positions in their core markets, and low levels of debt- are best placed to *achieve these two steps of Consolidation and subsequent Diversification successfully."*

10 Year History
The 10 Year Analysis given in Chapter 3, compares the performance of the Top 5 since the last market recession after the Financial crash in 2007. Ten years on, most, but not all, companies have survived, and not all with the same ownership structures. There have been bankruptcies (ROK), Mergers (Taylor Wimpey) and Acquisitions (A McAlpine/Carillion, Amec Construction/Morgan Sindall), etc.

What hasn't taken place is significant Consolidation, nor significant Diversification, which is now required.





In the 10 year review it was seen how companies endured the significant decline in the market, following the Financial Crash in 2007, being the most severe recession since the early 1990s. Construction companies in general continued to grow in Turnover, and most in Market Capitalisation, but few had grown significantly in profitability, with the exception of Taylor Wimpey.

But Operating Cash Flows remain generally strong, and as the industry pulls out of recession, these strong cash flows, and strengthened Balance Sheets and Market Values should now be put to good use in terms of new diversification into higher margin opportunities. This is a major conclusion of the Analysis, and is generally supported by the successes of European Groups who have made their M&A led diversification work for them in the last decade.

REASONS TO DIVERSIFY

The fierce competition that characterises local construction markets, as well as the traditionally low construction industry margins are two factors that have influenced the major companies to further diversify their portfolio of business segments. Furthermore, companies can benefit from the diversification process because the new activities into which they enter frequently share common customers with the construction sector, and very often they cover a full range of services throughout the entire infrastructure cycle, which allows them to increase the synergies generated between the different activities performed.

Nevertheless, it should be noted that higher diversification usually leads to higher indebtedness, which is also discussed in the Financing of Diversification discussed in this Report. A review of the margins obtained by the European Companies that have diversified shows that there is a direct correlation between the extent of the diversification strategy adopted and the margins obtained. Higher margins would be expected, as the Diversification requires investment, whereas existing contracting businesses are cash generative and can usually generate their own organic growth over time. This was often a case for not acquiring another contractor, with uncertain value in its work-in-progress. But the drivers now are for more consolidation to deliver a Group strong enough to embark on an aggressive investment led, acquisitive Diversification Programme.

Construction activity generally does not require significant levels of capital expenditure. However, capital expenditure requirements are traditionally higher in more diversified groups. In the *Deloitte's* Study the Top European Contractors average capital expenditure /sales ratio reached recent highs. However, the ratio obtained among the companies that fall within the "international conglomerate groups" stood higher on average (5.6%) and the ratios corresponding to the domestic and international construction groups were 4.54% and 2.97%, respectively. In this context, highly diversified groups such as Ferrovial and OHL have significant investment levels, due to the importance of their concession businesses. In 2015, Ferrovial made significant investments in connection with its US concessions. Also, Bouygues recorded an increase due to the significant capital expenditure of its telecom division. The significance of the findings is that while Diversification needs investment, if wisely made, it pays dividends and strengthens the companies further.

Successes of diversification
(2015 Results of Top European Companies)

Balfour Beatty and BAM, which obtain a significant percentage of their total sales from construction activities, recorded negative EBIT margins in 2015. In the case of the UK group, the losses recognised are due to issues in the UK,US and Middle East that resulted in profit write-downs and contract provisions.

The arrival of Taylor Wimpey in the Top 20European Company Analysis boasts an EBIT / sales ratio of 20.1% in 2015. This was closely followed by Barratt Developments (UK), which also took advantage of the positive conditions of the UK housing market, resulting in an increased margin of 15.4%.

In terms of profitability by country, the French, Spanish, Italian and UK groups recorded the highest EBIT margins of 7.2%, 6.4%, 5.8% and 5.0%, respectively. An analysis of the diversification strategies followed by the European companies shows that, other than construction, Real Estate Development, Industrial & Services and Energy are the segments into which most companies have diversified the most. Only two companies

(ACS and FCC) obtained sales of over EUR 1,000 million in the Environment & Water segment while just one company, Bouygues (France), has a significant presence in telecommunications through its investment in the TV channel TF1.

Companies are in many cases present in the concession business through equity investments. Without considering the companies accounted for using the equity method, only the French groups Vinci and Eiffage have concession revenues of over EUR 1,000 million. Other groups such as Bouygues, Strabag, Carillion, and the Spanish groups Ferrovial, ACS, Acciona and OHL are also present within the concession business, however their sales are below EUR 1,000 million. Some companies are also present in other services, with Ferrovial leading this activity in the Top 20.

EXAMPLES OF EUROPEAN MAJORS FORMED BY M&A
CASE STUDY 2

Company M&A History: "The ACS, the second largest Construction Group in Europe, began operating in 1983 when a group of engineers acquired Construcciones Padrós, a mid-sized construction company with financial problems located in Badalona (Catalonia). After restructuring this company, the same strategy was employed with the acquisition of OCISA, a prestigious construction company which was larger and had already been in operation for over 40 years.

At the end of the eighties, a diversification process was initiated through the acquisition of SEMI, a company specialised in the maintenance and installation of electricity lines. This process was continued with the purchase of a majority shareholding in Cobra, one of the most renowned companies in the sector of support services to electricity and telecommunications companies, and a market leader with over 80 years' experience.
The first of the large company mergers took place in 1992 with the creation of OCP, which would be the seed for the Group structured as it is today. OCP became one of the leading construction company groups in Spain. A second large merger took place in 1997, with the creation of ACS as a result of OCP's merger with Auxini and Gines Navarro.

At the end of the nineties, the Group incorporated most of the companies forming its current services area; Onyx, a provider of environmental services; Imes, a company dedicated to public lighting services, integral maintenance and control services; and Vertresa, the largest waste treatment plant in Madrid. The turn of the century started with the integration of the Dragados Group, which positioned the ACS Group as the indisputable leader in the Spanish market and as one the most important companies in the industry on the European continent.

In 2007, the ACS Group acquired a significant stake in Hochtief, a world leader in infrastructure development with a powerful presence in the USA, Central Europe, Australia and Southeast Asia. This operation is designed to provide a platform for the ACS Group to accelerate its international expansion.

"During the last years the ACS Group has carried out a strong international expansion process in all its areas of activity, focussing on large-scale projects. This strategy, which is mainly focused on guaranteeing the ACS Group's competitiveness, investment capacity and growth in the future, was further increased, during 2011, through the acquisition of a majority share in Hochtief, an important platform for international growth and with the objective of global leadership in the infrastructure sector. As well, this strategic decision allows increasing the competitive advantages and the profitability of all companies of the Group, as a result of important opportunities of commercial collaboration, operating efficiency and a strengthening of ACS Group financial structure."

Comment: ACS also had to take significant write-downs on projects where profits have been over-represented; and also there have been allegations of bribery with Public Sector clients. Unfortunately not an un familiar trait in Contracting. But ACS has weathered the storms of economic cycles and losses (particularly with respect to its subsidiary Iberdrola) probably better because of its size, formed by the aggressive M&A strategy it pursued in the 1990s and 2000s.

FINANCIAL AND OPERATING DATA

MILLION OF EUROS	2010(1)	2011	2012(2)	2013(3)	2014(4)	2015(4)
TURNOVER	14,328.5	28,471.9	38,396.2	35,178.0	34,880.9	34,924.7
GROSS OPERATING PROFIT (EBITDA)	1,431.7	2,317.7	3,088.4	2,832.5	2,552.7	2,408.6
NET OPERATING PROFIT (EBIT)	1,039.2	1,333.3	1,579.4	1,639.7	1,684.2	1,541.5
ATTRIBUTABLE NET PROFIT	1,312.6	961.9	-1,927.9	701.5	717.1	725.3
CASH-FLOW (*)	1,705.1	1,946.4	-418.8	1,894.3	1,585.6	1,592.4
DIVIDENDS PAID	618.2	613.9	639.2	398.0	318.0	344.5
NET INVESTMENTS/(DIVESTMENTS)	2,317.2	2,901.9	(2,285.2)	494.3	(313.0)	392.6
TOTAL ASSETS	34,184.5	47,987.6	41,563.4	39,965.4	39,320.7	35,279.8
EQUITY	4,442.4	6,191.3	5,711.5	5,488.9	4,897.9	5,197.3
SHAREHOLDERS' EQUITY	4,178.5	3,319.1	2,656.5	3,267.9	3,033.5	3,421.0
NON- CONTROLLING INTERESTS	263.8	2,872.2	3,055.0	2,221.0	1,864.4	1,776.3
TOTAL NET DEBT (5)	8,003.1	9,334.2	4,952.0	3,811.1	3,722.3	2,624.1
NET DEBT WITH RECOURSE	956.6	3,368.7	3,569.5	2,553.9	2,739.6	2,083.2
NON RECOURSE FINANCING	7,046.5	5,965.5	1,382.4	1,257.1	982.7	540.9
ORDER BOOK (6)	27,602.0	74,333.4	74,587.9	59,363.0	63,871.0	67,071.0
NUMBER OF EMPLOYEES	89,039	162,262	162,471	157,689	210,345	196,967

(*) Net profit + Depreciation + Change in povisions.

DATA PER SHARE

EUROS	2010(1)	2011	2012(2)	2013(3)	2014	2015
EARNINGS	4.38	3.24	-6.62	2.26	2.31	2.35
GROSS DIVIDEND (**)	2.050	1.968	1.112	1.153	1.153	1.150
CASH-FLOW	5.70	6.56	-1.44	6.11	5.10	5.16
SHAREHOLDERS' EQUITY	13.96	11.19	9.12	10.53	9.76	11.09

(**) The final amount of the gross dividend of 2015 will be determined according to the scrip dividend result.

STOCK MARKET DATA

	2010	2011	2012	2013	2014	2015
LISTED SHARES	314,664,594	314,664,594	314,664,594	314,664,594	314,664,594	314,664,594
MARKET CAPITALIZATION (€ MILLION)	11,036.7	7,205.7	5,991.1	7,872.8	9,115.7	8,500.5
YEAR-END CLOSING PRICE	35.08 €	22.90 €	19.04 €	25.02 €	28.97 €	27.02 €
ANNUAL REVALUATION	0.76%	-34.71%	-16.86%	31.41%	15.79%	-6.75%

KEY RATIOS

	2010(1)	2011	2012(2)	2013(3)	2014(4)	2015(4)
OPERATING MARGIN	7.3%	4.7%	4.1%	4.7%	4.8%	4.4%
NET MARGIN	9.2%	3.4%	-5.0%	2.0%	2.1%	2.1%
ROE	32.5%	23.3%	N.A.	22.7%	22.0%	20.8%
GEARING (7)	180.2%	150.8%	86.7%	69.4%	76.0%	50.5%
DIVIDEND YIELD	5.8%	8.6%	5.8%	4.6%	4.0%	4.3%

Source: *Annual report*

CASE STUDY 3

Company M&A History:

The company was founded by Rafael del Pino y Moreno in 1952 as a railroad construction company called Ferrovial, from the Spanish word for "railroad". Ferrovial acquired 98.27% of Agromán, another leading Spanish contractor in June 1995 and then set up Cintra in February 1998: presided over by Rafael del Pino Calvo-Sotelo, Cintra originally comprised three business lines: Car Parks, Toll Roads and Airports (the latter would eventually be separated from the other two business lines).

In the early years of the new millennium the company expanded acquiring 58.5% of the Polish construction company Budimex Dromex S.A. in April 2000 and Bristol Airport in Southwest England in December 2000. In June 2002, Ferrovial acquired the concession for Sydney airport, the largest airport in Australia.

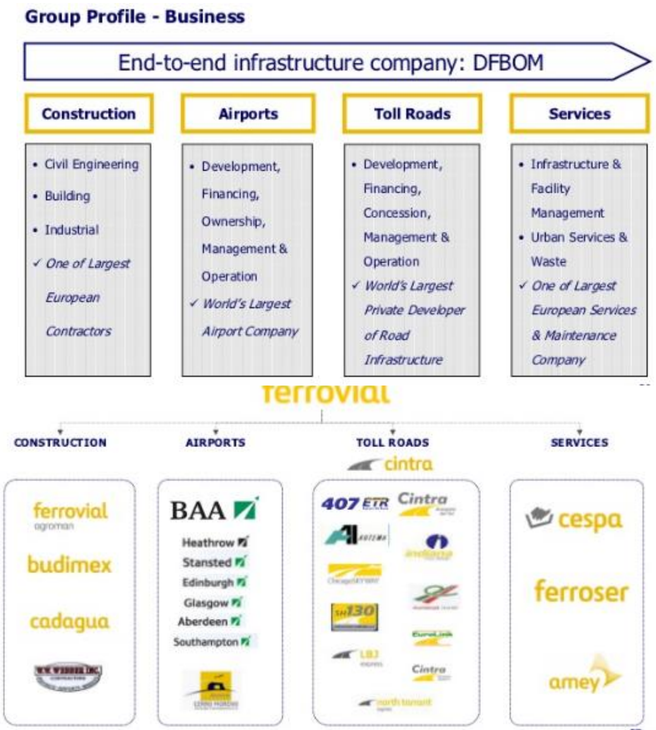
The company then expanded in the United Kingdom acquiring Amey plc, a British contractor and major investor in Tube Lines, one of the two public–private partnership companies responsible for the maintenance of London Underground's lines and rolling stock in April 2003 and Belfast City Airport in May 2003.

Acquisitions continued: the Texan group Webber, specializing in civil engineering infrastructure, recycling of aggregates and extraction and supply of sand in Texas and Swissport International were both bought in August 2005.

In 2006, a Ferrovial-led consortium purchased the British company BAA Limited, for £10bn and BAA sold its stake in Bristol airport to Macquarie Airports. Then in 2007, Ferrovial finalised the sale of its stake in Sydney Airport and MAp exercised its call option on Ferrovial Airports' 20.9% stake in Sydney Airport for the agreed price of A$1.009 bn. Also in 2007 Ferrovial sold Budapest Airport to a consortium led by Hochtief AirPort GmbH for £1.3bn and announced changes in its corporate structure. At the end of the year BAA finalised the sale of its stakes in 6 Australian airports to Hastings Fund Management Limited for approx. €495m.

In 2008, BAA sold World Duty Free Europe (WDF) to Autogrill for £546.6m, 33 properties of Airport Property Partnership (APP) to Arora Family Trust, a private group, for £265m and Belfast City Airport Limited to ABN Amro Global Infrastructure Fund / Faros Infrastructure Partners LLC for £132.5m.

In 2009 Ferrovial subsidiary Amey and the UK's Birmingham City Council announced financial close on the £2.7bn Birmingham Highways private finance initiative (PFI) scheme and Cintra completed the sale of its 99.92% stake in subsidiary Cintra Aparcamientos, S.A. to a consortium for €451m, including bank debt. On 21 October 2009, BAA reached an agreement to sell London Gatwick airport to an entity controlled by Global Infrastructure Partnership for £1.5bn and Ferrovial's majority-owned subsidiary Cintra was reacquired in full in December 2009.



On 17 December 2009, NTE Mobility Partners LLC, a consortium in which Cintra has a majority stake, completed raising $2 bn to finance the North Tarrant Express Managed Lanes project in Texas and on 29 December 2009, Cintra sold 60% of its Chilean subsidiary to ISA for €209m.

Then in 2010 Transport for London completed the deal to purchase PPP contractor Tube Lines from Ferrovial for £310m and Ferrovial subsidiary Amey acquired the national rail consultancy of WYG Engineering Limited ('WYG'), part of the WYG Group (formerly, White Young Green). Ferrovial also sold its 50% stake in Autopista Trados 45 for €67m and Ferrovial Servicios subsidiary AmeyCespa acquired Dickerson Group, including its U.K. waste management company Donarbon, for £48.6m.

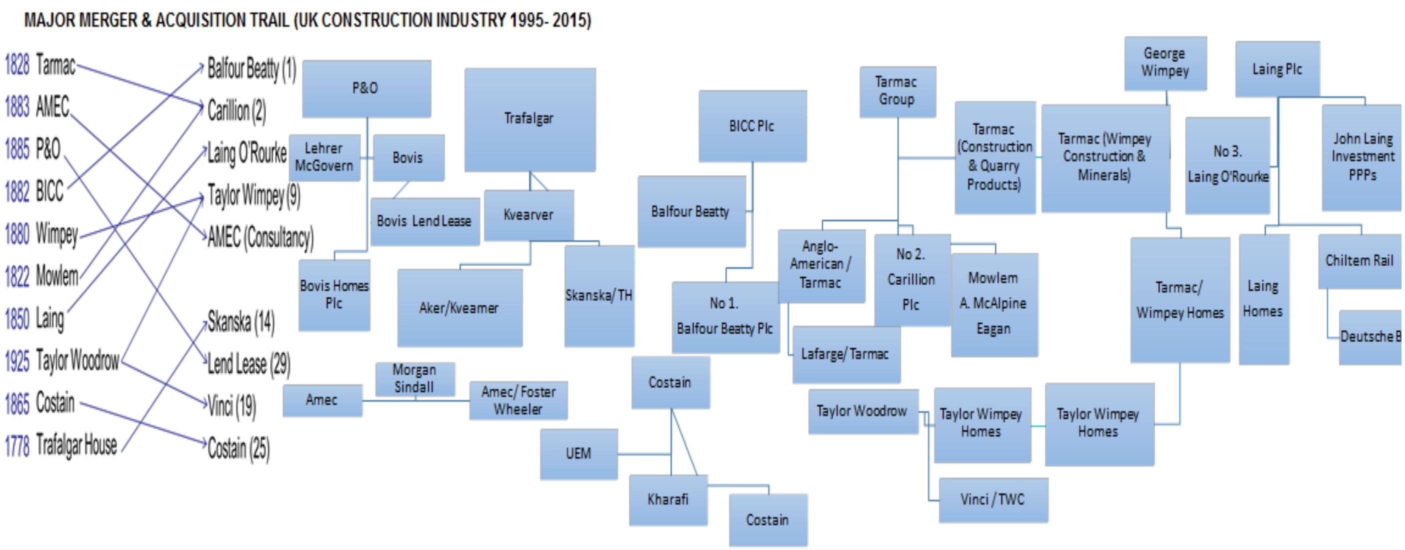
In 2012 BAA sold Edinburgh Airport to Global Infrastructure Partners for £807m. Ferrovial also announced the sale of a 10% stake in the parent company of Heathrow Airport Holdings Ltd to Qatar Holding LLC for £478m. Following this sale Ferrovial now has an indirect interest in Heathrow of 33.65%.

On 19 January 2013, Heathrow Airport Holdings (formerly BAA) announced the sale of Stansted Airport for £1.5bn to Manchester Airport Group and on 21 February 2013, Ferrovial, through Ferrovial Services, reached an agreement with international investor 3i to acquire Enterprise, one of the UK's leading providers of services to utilities and the public sector, for £385m."

***"Comment:** The purpose of including the M&A history of these two International Conglomerates is to demonstrate how they both transformed themselves from modest, Domestic Contractors in Spain in the early 1990s into truly Global Power Houses with Diversified Businesses, via a plethora of M&A Deals, both Acquisitions and Divestments."*

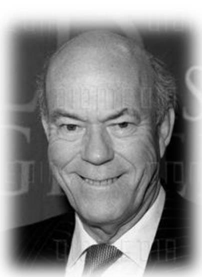
5.3 LEADING THE STRATEGIC PLAN PROCESS

THE FAMILY TREE OF UK INDUSTRY LEADERSHIP







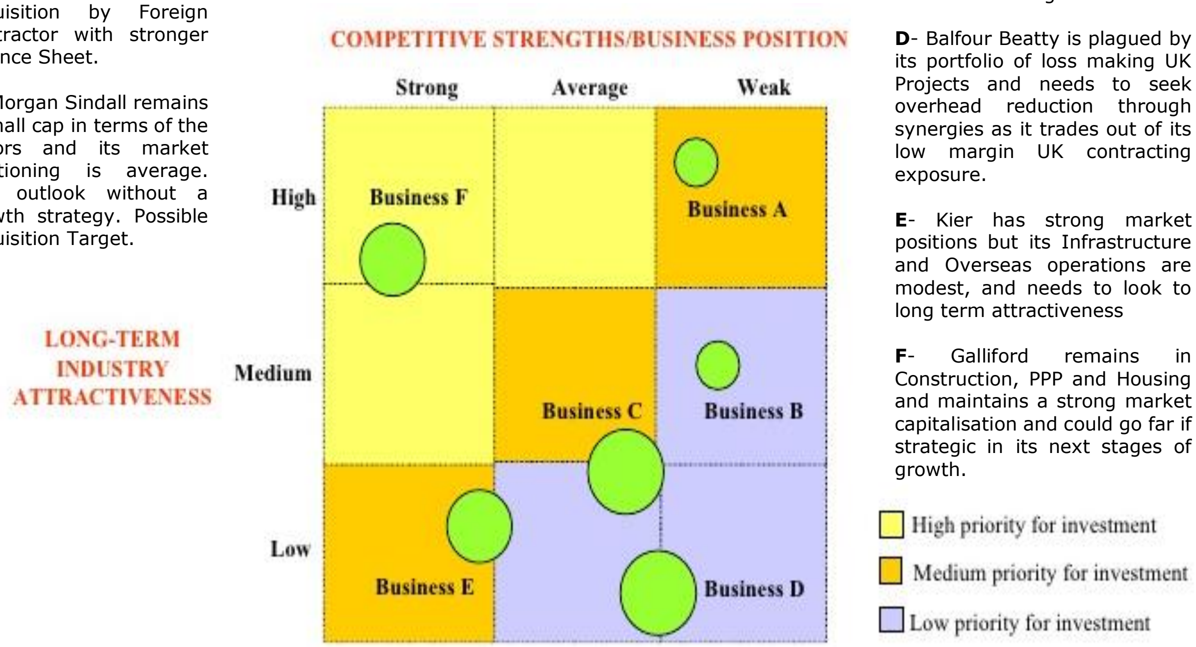




THE M&A UK COMPETITIVE STRENGTH MATRIX

A -Costain's weak financial position has for a long time impaired its ability to capitalise on the full potential in its core markets. Target for Acquisition by Foreign Contractor with stronger Balance Sheet.

B- Morgan Sindall remains a small cap in terms of the Majors and its market positioning is average. Dull outlook without a growth strategy. Possible Acquisition Target.



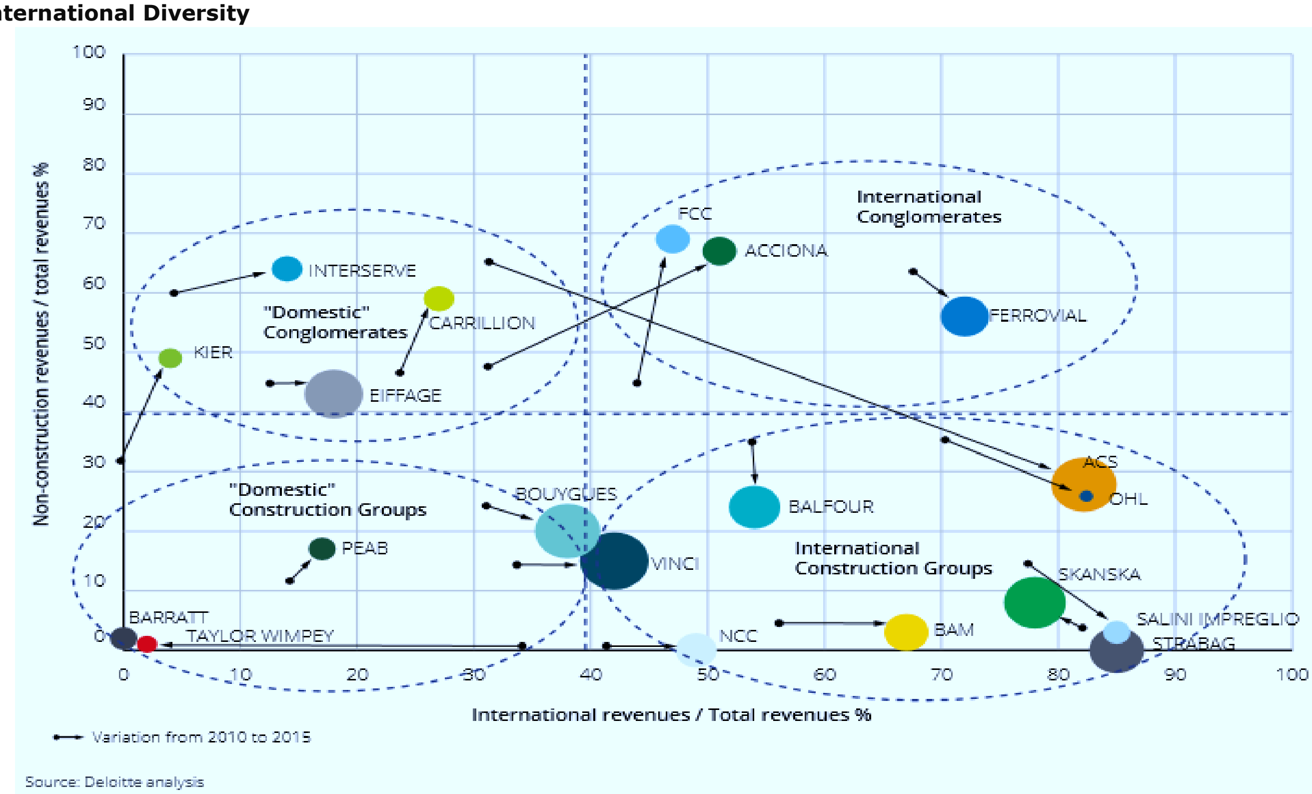
C- Laing O'Rourke retains good positions in UK Major Projects like Hinkley, but pulling out of successful Australian Business to lick wounds in Europe. A great success story, albeit a little tired. Time for new blood and shareholding?

D- Balfour Beatty is plagued by its portfolio of loss making UK Projects and needs to seek overhead reduction through synergies as it trades out of its low margin UK contracting exposure.

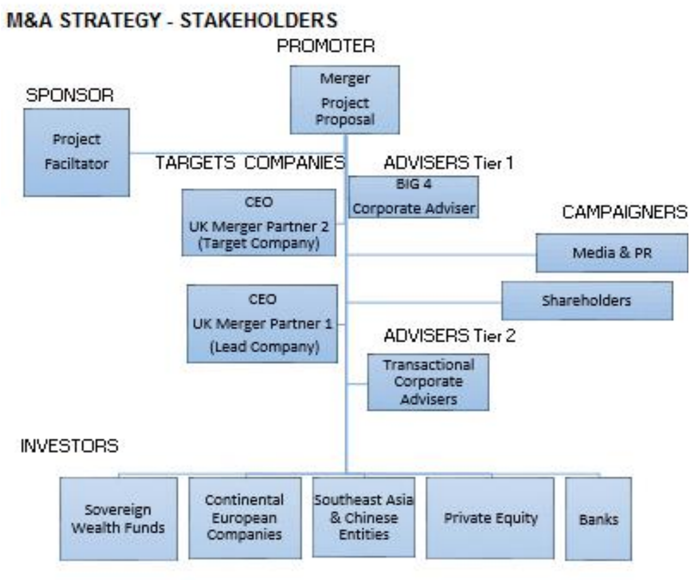
E- Kier has strong market positions but its Infrastructure and Overseas operations are modest, and needs to look to long term attractiveness

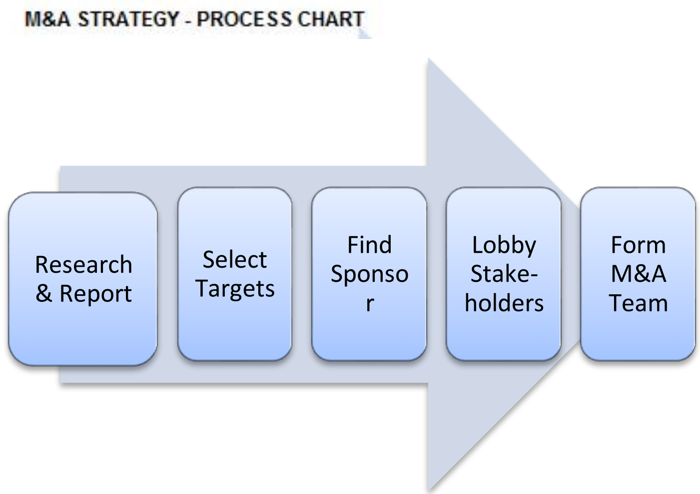
F- Galliford remains in Construction, PPP and Housing and maintains a strong market capitalisation and could go far if strategic in its next stages of growth.

Comparing Non-Construction Services And International Diversity



TURNING MERGER STRATEGY INTO ACTION IN THE UK
THE STRATEGIC PLAN PROCESS



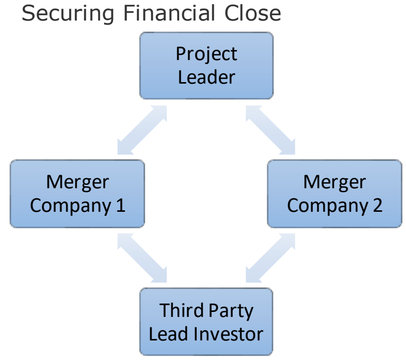


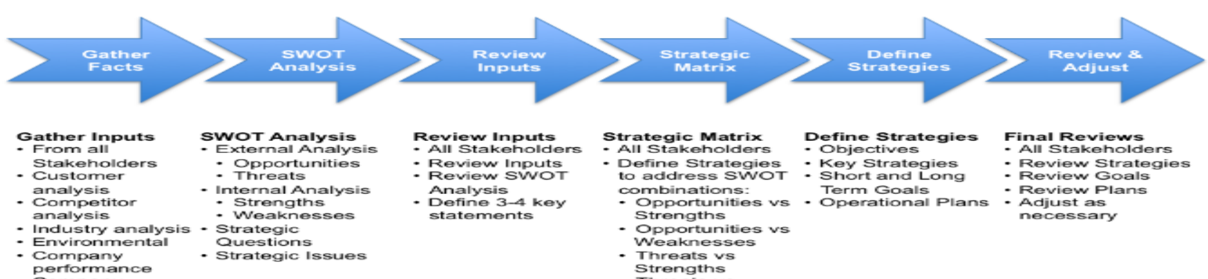
Action Plan

- Carry out Desk Research
- Select Targets/ SWOT and Review
- Prepare Strategy Reports & Presentations
- Find, Review, and Secure backing of a Project Leader/ Champion/ Facilitator
- Find Willing Lead Investor
- Select Lead Project Adviser
- Approach & Secure Willingness & Agreement of Merger Company 2
- Approach & Secure Willingness & Agreement of Merger Company 1.
- Liaise with Stakeholders
- Campaign and Secure Positive Media & PR; Lobby Investor Stakeholders Support
- Form M&A Team

Keys To Success

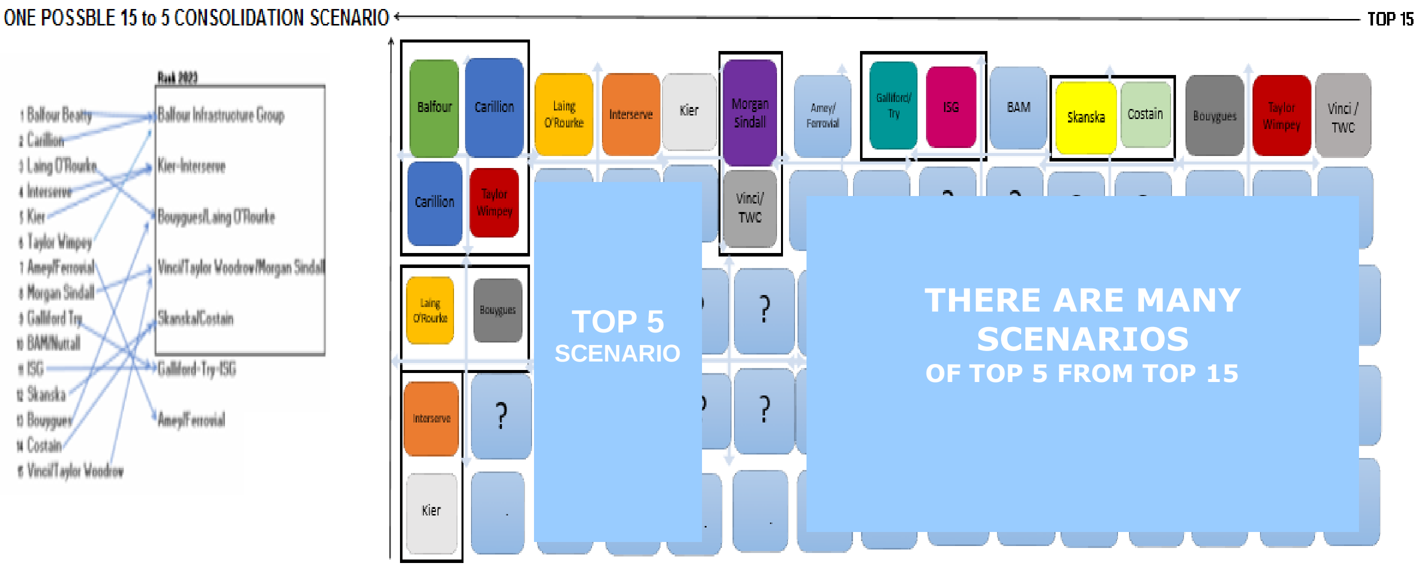
- Securing Project Sponsor/ Facilitator
- Secure Willing Investor
- Securing Willingness & Agreement of Merger Partner CEO's
- Securing Positive Media and Stakeholder Support
- Securing Financial Close



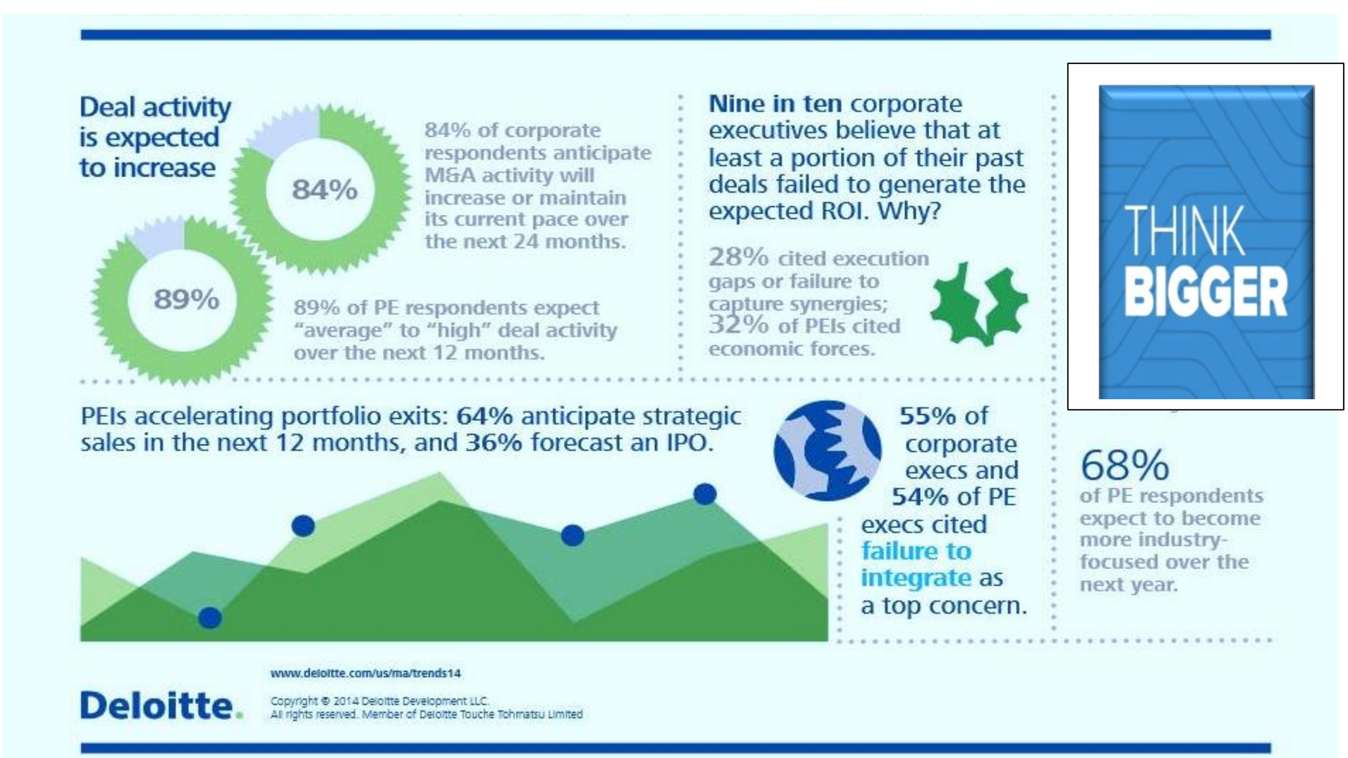


MULTIPLE SCENARIOS FOR UK MERGERS AND ACQUISITIONS

The Question not is Who will Merge with Whom.
It's Who will make the first Move?



DELOITTE M&A TRENDS REPORT



Source: Deloitte

MERGER SCENARIOS- FINANCIALS (2015)

OVERALL SUMMARY

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COMPETITOR	MKT CAP (2016)	ENTERPRISE VALUE	NET ASSETS	PENSION DEFICIT	OP CASH FLOW	PFI- DIRECTORS VALN	OP CF/ ENTERPRISE VALN	MKT CAP- NA/ NA	PENSION DEF/NA	PFI/NA
	(£M)						(%)			
Acquisition Valuation Criteria		*A. Enterprise Value= Mkt Cap-Cash +Dbt*					*B. Pay-Back Ratio (based on Op CF)*	*C. Premium to Net Assets (Goodwill)*	*D. Pension Burden (as Ratio to Net Assets)*	*E. Understated Balance Sheet (Directors Valuation not on Balance Sheet)*
BALFOUR BEATTY	1903	2057	826	146	-129	1244	-6.3%	130.4%	17.7%	150.6%
COSTAIN	369	309	121	30	18	na	5.8%	205.0%	24.8%	na
MORGAN SINDALL	318	315	249	-2	36	na	11.4%	27.7%	-0.8%	na
KIER	1308	1461	576	123	170	38	11.6%	127.1%	21.4%	6.6%
CARILLION	1078	1266	1017	406	245	27	19.4%	6.0%	39.9%	2.7%
GALLIFORD TRY	1099	1154	569	35	125	na	10.8%	93.1%	6.2%	na
INTERSERVE	518	840	513	-17	114	na	13.6%	1.0%	-3.3%	na
TAYLOR WIMPEY	4822	4694	2723	180	427	na	9.1%	77.1%	6.6%	na

COMMENT
(Based on Financial Criteria, above)

Note: Taylor Wimpey is considered lead Housing Group for Construction Group M&A, but Barratts and Persimmon are both possible substitutions subject to Analysis

BALFOUR BEATTY *(Possible Merger Partner- Carillion)*	**Balfour** is to turn-around its Poor Operating Performance on UK Contracts . Its Market Cap is at a 130% Premium to Net Assets, but Balance Sheet seriously understated with the Directors Valuation of PFIs at £1.2bn. That is why John Laing Infrastructure was looking to Asset strip. Balfour needs to MERGE, rather than try to achieve full overhead savings independently Then it can focus on a forward strategy as a leading Construction Group, and achieve target overhead reductions via economies of scale and synergies. If it does not do this, the risk is that it will be acquired by a foreign entity (French, Spanish, Chinese?) and become part of another company's bigger plan, and lose independence.
COSTAIN *(Possible Acquirer- Skanska/ACS)*	**Costain** has deteriorating Operating Cash Flow and Cash Balances. Mkt Cap is more than twice Net Assets, and its Pension Burden is 25% of Net Assets, and growing. Company needs to focus on operational cash flow; and seek a financially strong ACQUIRER to allow it to invest in its Growth and become a Tier 1 Construction Group. Enterprise Val just £300m
MORGAN SINDALL *(Possible Acquirer- Vinci Taylor Woodrow/ Bouygues)*	**Morgan Sindall** has same Enterprise and Market Cap Valuation (ie. No debt). Operating Cash Flow has revived, and with Market Cap-NA at 27% premium to Net Assets, and No Pension Deficit, financially the company is a good cheap buy, and will be ACQUIRED if John Morgan becomes a willing seller. Mgmt has significant shareholding; and the company performs in ROI terms. Its profitable fit-out (synergies with ISG?) and urban regeneration businesses may find a buyer. Spending in social housing has its demographic drivers.
KIER *(Possible Merger or Acquisition of- Interserve)*	**Kier's** Operating Cash Flow is still good despite extraordinary losses in 2016. It's Pay-Back, Goodwill, Pension Burden Profiles are average, and seems a candidate for MERGER to realise synergistic savings and thereafter focus on diversification. Kier could build on its smaller businesses of Civils, Overseas, Housing or just grow Non-Construction services.
CARILLION *(Possible Merger Partner- Balfour Beatty)*	**Carillion** is a MERGER candidate. It has been selling off PFIs and its Pension Burden at 40% Net Assets is a problem. Operating Cash Flow is still strong at 19% Enterprise Value. Market Cap is only 6% premium to Net Assets but has Intangible Assets on Balance Sheet (ex- Acquisitions). Opportunity to grow into diversified International Group via MERGER.
GALLIFORD TRY *(Possible Acquirer of Miller Homes/Interserve)*	**Galliford Try** Market Cap is strong at £1.1bn; has low Net Debt, & a Pension Deficit manageable at £35m. It is a well Diversified Company, but may benefit from building up its Housing Business via ACQUISITION of Miller Homes. It could also consider MERGER with Kier, a Group of similar size, or ACQUIRE Interserve. Depends whether its focus is housing interests or broader diversification as a Contractor/ Support Services Business
INTERSERVE	**Interserve** like Costain and Morgan Sindall has a relatively low Acquisition Cost with Market Capitalisation of £518m (similar to Net Asset Value). But unlike the others, it has Debt and Enterprise Value of £840m. It transferred PFIs into its Pension Scheme and it has a Surplus of £17m. Operating Cash Flow is a healthy 13.6% of Enterprise Value, and it has quality overseas businesses across the Middle East and has recently decided to retain its Formwork Subsidiary RMD. Interserve deserves to get on the Growth Train, and its best route is via MERGER or agreed ACQUISITION with a Bigger Player such as Kier, or Galliford. Try.
TAYLOR WIMPEY *(Possible Acquirer of Balfour Beatty/Carillion)*	**Taylor Wimpey** came from being a heavily indebted Merged Housing Group in a depressed market, to become Market Leader via a large Rights Issue and turn-around of both the Market and the Company's fortunes. Despite being a Cash Hungry acquirer of Housing Land, TW has relatively low Debt. Its Market Capitalisation is at a strong premium to Net Assets, and Operating Cash Flow is acceptable at c. 9% of enhance Enterprise Value £4.7bn. Taylor Wimpey is a star performer among its Construction Group Peers, but cannot be described as widely diversified, with all its business in UK Housing. Its heritage was more diversified. Its Market value recognises it strong Profitability, Land Bank, Order Book, rather than being the Net Present Value of a less certain long-term cash flow model in a traditionally very cyclical market. The opportunity is for TW to use its Financial muscle, borrowing power, and diversify via M&A. Its 14,000 units per year in UK is probably at a maximum for profit sustainability for a short landbank volume builder. Its M&A growth options are however exciting.

MERGER SCENARIOS- FINANCIALS (2015)

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TOP 10 COMBINATION SCENARIOS

	MERGED SCENARIOS (assuming no premium to Mkt Cap)	MKT CAP (£M)	ENTERPRISE VALUE (£M)	NET ASSETS (£M)	PENSION DEFICIT (£M)	OP CASH FLOW (£M)	OP CF/ ENTERPRISE VALN (%)	MKT CAP-NA/ NA (%)	PENSION DEF/NA (%)
1	BALFOUR/ CARILLION	2981	3323	1843	552	116	3.5%	61.7%	30.0%
2	KIER/INTERSERVE	1826	2301	1089	106	284	12.3%	67.7%	9.7%
3	GALLIFORD/ INTERSERVE	1617	1994	1082	18	239	12.0%	49.4%	1.7%
4	GALLIFORD/ KIER	2407	2615	1145	158	295	11.3%	110.2%	13.8%
5	MORGAN SIND/INTERSERVE	836	1155	762	-19	150	13.0%	9.7%	-2.5%
6	TW/BALFOUR/ CARILLION	7803	8017	4566	732	543	6.8%	70.9%	16.0%
7	KIER/CARILLION/GALLIFORD	3485	3881	2162	564	540	13.9%	61.2%	26.1%
8	KIER/CARILLION/INTERSERVE	2904	3567	2106	512	529	14.8%	37.9%	24.3%
9	GALLIFORD/KIER/INTERSERVE	2925	3455	1658	141	409	11.8%	76.4%	8.5%
10	KIER/GALLIFORD/TW	7229	7309	3868	338	722	9.9%	86.9%	8.7%

Note: Most favoured Combined Groups for Analysis are ***Taylor Wimpey/ Balfour Beatty/ Carillion*** *and* ***Kier/ Galliford/ Interserve*** *(see below).*

COMMENT (Financials)
(assuming no Synergy Savings)

Mergers/ Acquisitions BALFOUR/ CARILLION	**Balfour Carillion** would have the largest Pension Deficit to Net Asset Ratio, and lowest Operating Cash Flow to Enterprise Value (but takes no account of restored BB Operating Cash Flow or Synergistic OH savings) The Group would be the largest & most diversified (non-housing) UK Construction Group with combined businesses in Construction, Support Services, & over £1.3bn PPPs in UK, North America & Middle East.
KIER/INTERSERVE	**Kier Interserve** would have the second lowest Pension Burden and highest Operating Cash Flow to Enterprise performance Ratio. It would be similar in Value to the current Balfour Beatty model, but very different in operations, K/I would derive profits from Interserves Support Services and Equipment Services, complementing Kier's Regional Building Business and Highways Maintenance business, but be seen as an Acquisition by Kier.
GALLIFORD/ INTERSERVE	**Galliford Interserve** combined would have a Market Capitalisation lower than Balfour Beatty, but higher Net Debt at £350m, less scope for growth, but provide Galliford with an established non-construction Support Services Arm
GALLIFORD/ KIER	**Galliford & Kier** are similar businesses in size and both in Construction, Housing and PPPs, Kier having a large Services offer. Combined Enterprise Value would be £2.6bn, larger than any current Contractor.
MORGAN SINDALL/INTERSERVE	**Morgan Sindall/ Interserve** would have the lowest absolute Pension Deficit and Ratio to Net Assets. It would also have the second highest Operating Cash Flow to Enterprise Value, and lowest Goodwill, making it an attractive tie-up based on the numbers. But operationally the Combined Group would have the same Enterprise Value as the current Galliford Try, and take Interserve back into more general contracting, Fit-Out and Partnership Housing which it might not consider its focus for diversification
Combinations TW/BALFOUR/ CARILLION	**The Combined Group of Businesses of Taylor Wimpey, Balfour Beatty and Carillion** would produce a c.£8bn Market Capitalised Construction Group and clear market leader with next to no Gearing, a mature 'stand-alone' Housing Business with less appetite for net cash consuming growth, and a Balance Sheet to enact a broad Diversification programme to rival European Major Competitor Groups. The Group would be able to manage its considerable combined Pension Deficit of £730m, and generate likely well in excess of £750m Operating Cash Flow, once Balfour Beatty / Carillion merged Synergies are derived, and Balfour Beatty's contracting returns to Profit.
KIER/CARILLION/GALLIFORD	**The Combined Group of Businesses of Kier, Carillion and Galliford** would produce a larger Contractor/ Support Servces and Housing mix with a c. £4bn Enterprise Value with £540 Annual Operating Cash Flow (second highest ratio to Enterprise Value at 13.9%), but a 26% Pension Deficit to Net Asset Ratio.
KIER/CARILLION/INTERSERVE	**The Combined Group of Businesses of Kier, Carillion and Interserve** would have a similar Pension Burden Ratio, but have higher Gearing and lower Market Capitalisation (albeit at lower Goodwill to Net Assets). But it would have a good balance of Construction to Support Serveices mix (£4.6bn Tnd £5.7bn Turnovers, respectively), and highest Operating Cash Flow to Enterprise Value of 14.8%.
	The Combined Group of Businesses of Kier, Interserve and Galliford would have a nominal Pension Deficit, but poorer Pay-Back and Goodwill comparisons. However, it would provide a n excellent mix of Construction, Support Services and Housing Businesses (c. £4bn, £3bn & £1.5bn) and rival The TW/BB/Carillion combination in market dominance in its sectors, excluding certain infrastructure sectors such as Carillion & Balfour's combined Rail; and Power,etc.
	The Combined Group of Businesses of Kier, Galliford and Taylor Wimpey would have the largets Housing Business of the comparisons but one of the lowest percentage (at £1.2bn) mix of Support Services, so not be the most obvious Merger to produce a well diversified Group.

MERGER SCENARIOS- FINANCIALS (2015)

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BUSINESS MIX

BUSINESS MIX (Construction v Non-Construction)		CONSTRUCTION	SUPPORT SERVICES	PPP	HOUSING/ PROPERTY	OTHER	CORE BUSINESS TOTALS
Core Businesses Only							
TAYLOR WIMPEY	*GROUP 1*	0	0	0	3140	0	3140
CARILLION		1860	2534	193	0	0	4587
BALFOUR BEATTY		5220	1234	310	0	191	6955
		7080	3768	503	3140	191	14682
		48%	*26%*	*3%*	*21%*	*1%*	*100%*
KIER	*GROUP 2*	1713	1247	0	320	0	3280
INTERSERVE		1041	2005	0	0	220	3266
GALLIFORD TRY		1282	0	16	1050	0	2348
		4036	3252	16	1370	220	8894
TURNOVER (£m)		*45%*	*37%*	*0%*	*15%*	*2%*	*100%*

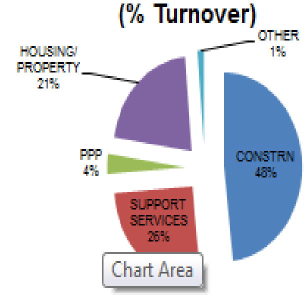
WIMPEY- GROUP 1

CONSTRN	7080
SUPPORT SERVICES	3768
PPP	503
HOUSING/PROPERTY	3140
OTHER	191

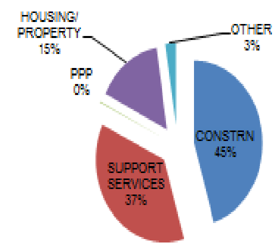
KIER- GROUP 2

CONSTRN	4036
SUPPORT SERVICES	3252
PPP	16
HOUSING/PROPERTY	1370
OTHER	220

WIMPEY GROUP (% Turnover)



KIER GROUP (% Turnover)



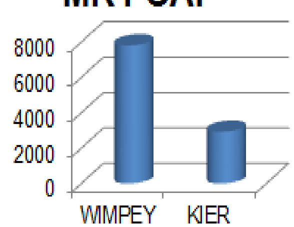
WIMPEY- GROUP 1

MKT CAP	7803
NET ASSETS	4566
PENSION DEFICIT	732
OPERATING CASH FLOW	543

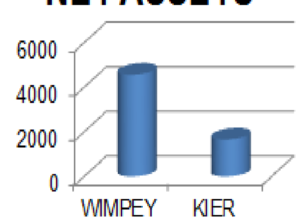
KIER- GROUP 2

MKT CAP	2925
NET ASSETS	1658
PENSION DEFICIT	141
OPERATING CASH FLOW	409

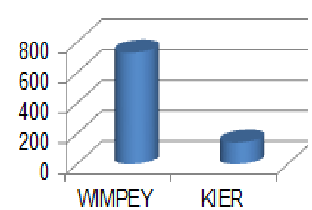
MKT CAP



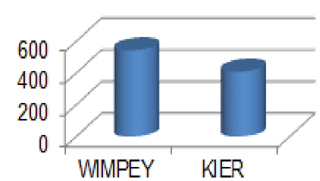
NET ASSETS



PENSION



OP CASH FLOW



MERGER SCENARIOS- FINANCIALS (2015)

COMMENTS

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COMMENT (Strategy & Operations)
(Extracts from Company Analysis- Chapter 3)

BALFOUR BEATTY
COSTAIN
MORGAN SINDALL
KIER
CARILLION
GALLIFORD TRY
INTERSERVE
TAYLOR WIMPEY
ACS
FERROVIAL
BAM
SKANSKA
BOUYGUES
BALFOUR/CARILLION

"While **Balfour Beatty** is focusing on retrenchment and consolidation in its core contracting businesses, it does not have the luxury to do what it needs to do for the longer term, which is to put in place a strategy, and the financing, for future diversification outside contracting."

"**Costain** is an admirable survivor with a "steady as you go" strategy and a brand name that has allowed it to continue to punch above its weight since near demise in the early 1990s. But its days as an independent company are probably numbered now the supportive minority shareholders have diluted their holdings and their nominees have left the Board. With its cash position deteriorating somewhat, and future acquisition aspirations of any substance dawning, surely it's time to seek to be positively acquired by a larger financially robust partner who can help it back into a Tier 1 position it deserves, given its unquestionable engineering capabilities."

"At **Kier**, he fundamentals remain strong (2015/16 Operating Cash Flow was £170m despite its Acquisition write-down problems . They are also one of the few Contractors which maintained Property and Housing Arms. With the indigestion from swallowing May Guerney and the sale of the rump of Mouchel behind them, and operationally more diverse, particularly in Highways, for having done so, maybe Kier should look at a Merger rather than Acquisition for its future growth strategy, outside core UK Infrastructure, Regional Building, and Maintenance and Support Services. Kier itself is now seen as a Major Merger partner itself. It has flirted as an acquisitive company for the first time since the MBO from Hanson, with mixed success. As part of a bigger merged Group, with a similar, albeit smaller, player such as Interserve, better synergies are likely to be realised; or maybe a wider diversification by seeking a partner outside construction and construction services."

"**Carillion**:There are compelling reasons why Carillion should find a large Merger Partner. But focusing just on Balfour Beatty's woes since the failed merger in 2014 does not do justice to both sides of the argument. Two years since the failed buy, Carillion's margins have declined at the operating level. Net borrowings, and Pension Deficit, areihigher than expected and a weak pound hurts, as Carillion's private placement borrowing is denominated in US dollars."

"**Galliford** is a strong Diversified Housing and Construction Group with a Market Capitalisation of £1.1bn, a Turnover of £2.5bn, PBT £135m and Net Assets of £600m. It will continue to enjoy a buoyant housing market, and may choose to grow by Merger with another complimentary Group like Countryside, or via Acquisition of Miller Homes, which decided not to list in 2014 as planned, but have shareholders wishing to exit. Galliford is a strong Group with no debt. It could seek to make acquisitions (eg. Interserve or Countryside); or merge with a Group like Kier- if its strategy is to grow via M&A."

"At **Interserve,** Adrian Ringrose has built up a support services business from its roots as Tilbury Douglas. He has had his set-backs like the August 2006 announcement to the London Stock Exchange that accounting issues relating to the mis-statement of accounting balances had resulted in a £30m write-down, But the Group is strong and well diversified. With a Middle East presence as well, and a Pension Surplus unlike its peers, Interserve is a good candidate for merger to form one of the top tier construction groups in the UK. Due to its low Market Capitalisation, it could otherwise become an acquisition target."

"**Taylor Wimpey** is a star performer among current UK Construction Groups, even though it cannot be described in any way as widely diversified. Strong Revenues, Profits, Order Book and a quality Land Bank have earned it a deserved c. £5bn Market Capitalisation. Quite a turnaround from the woes of the Post-Merger company debt Crisis and market downturn it faced in 2007. But the Group needs to look to its longer term future, and its new focus might well be on capitalising on its financial strength to diversify outside is total dependency on the UK Housing Market, despite its current buoyancy and outlook."

"**ACS** (Dragados/Hochtief) strategy for the UK seems to be for measured growth as the company expands its market base with clients such as Network Rail, Transport for London, Highways England, London Underground and HS2.The firm's head count is 246, and based on likely future Project awards, the company might well rank up its plans for the UK. ACS with its financial strength, could conceivably acquire any of the Major 5 Players in the UK, to consolidate its UK position post Brexit. Costain could also be a target."

"**Ferrovial** has Amey well established in the uk, and is itself heavily invested in UK infrastructure concessions, particularly airports. Despite the construction of the third runway at London Heathrow, it is considered unlikely, but not impossible, for Ferrovial to make a large construction company acquisition."

"**BAM** is already established as a Civil Engineering Contractor in the UK. BAM (formerly HBG) also worked extensively with Costain and Carillion (formerly Tarmac) on heavy marine civil engineering projects in the UK like Conway Crossing and Thames Barrier. It is considered not highly likely, but not improbable, that BAM will seek another large acquisition as its M&A route to growth in the UK."

"**Skanska** is well able to acquire a local contractor to bolster its UK presence. Likely target would be Costain with whom it has regularly joint ventured, and was a minority shareholder and potential acquirer in the 1990s / 2000s."

"**Bouygues** M&A- Because of the recent losses, it is less likely that Bouygues is currently seeking to acquire further in the UK, but it has the ability to do so, when it has the will to do so, with major infrastructure projects on the horizon across the UK in coming years."

"Whether **Balfour Beatty and Carillion** should have buried their differences and reconsidered their opportunities to reopen discussions after 6 months is a question unanswered. Several analysts described the abortive merger talks as a missed opportunity. The two chairmen were likely still not talking after the Takeover Panel's six-month cooling period. However, with the change in leadership at Balfour Beatty, maybe it's time to repair relations, and re-open dialogue."

(Source: Think Big Partnership.com)

IERGED UK SCENARIO GROUPS RANKINGS

OP 30 RANKINGS (EUROPE)

ource: Deloitte European Powers of Construction 2015

Ranked by Turnover €M

Rank	Company		Sales	Market Capitalisation	EBIT	EBIT %
1	VINCI	FR	38,518	34,801	3,758	9.8%
2	ACS	SP	34,925	8,501	1,439	4.1%
3	BOUYGUES	FR	32,428	12,613	941	2.9%
4	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	**1,158**	**5.2%**
5	SKANSKA	SWE	16,363	7,373	672	4.1%
6	EIFFAGE	FR	14,060	5,493	1,431	10.2%
6	STRABAG	AUS	13,123	2,419	341	2.6%
7	**GALL/KIER/ INTERSR**	**UK**	**12,474**	**4,949**	**358**	**2.9%**
na	*BALFOUR BEATTY*	*UK*	*11,633*	*2,528*	*-251*	*-2.2%*
8	FERROVIAL	SP	9,701	15,270	901	9.3%
9	BAM	NETH	7,423	1,387	-11	-0.1%
10	NCC	SWE	6,681	3,088	325	4.9%
11	ACCIONA	SP	6,544	4,528	627	9.6%
12	FOMENTO	SP	6,476	1,824	324	5.0%
na	*CARILLION*	*UK*	*6,320*	*1,767*	*288*	*4.6%*
na	*INTERSERVE*	*UK*	*5,000*	*1,025*	*101*	*2.0%*
13	BARRATT	UK	4,931	8,625	756	15.3%
14	PEAB	SWE	4,744	2,082	108	2.3%
15	SALINI	IT	4,739	1,980	273	5.8%
na	*KIER*	*UK*	*4,395*	*1,909*	*80*	*1.8%*
16	OBRASCON HUARTE	SP	4,369	1,575	685	15.7%
na	*TAYLOR WIMPEY*	*UK*	*4,326*	*8,974*	*870*	*20.1%*
17	SANAYIAS	TUR	4,105	5,704	560	13.6%
18	PERSIMMON	UK	3,998	8,427	863	21.6%
19	MORGAN SINDALL	UK	3,285	445	-14	-0.4%
20	CFE	BEL	3,239	2,762	266	8.2%
21	PORR	AUS	3,140	813	88	2.8%
na	*GALLIFORD TRY*	*UK*	*3,079*	*2,015*	*177*	*5.7%*
22	IMPLENIA	SWISS	3,079	861	81	2.6%
23	VALLEHERMOSO	SP	2,949	939	148	5.0%
24	ASTALDI	IT	2,855	553	277	9.7%
25	VEIDEKKE ASA	NOR	2,707	1,508	-1	0.0%
26	MOTA ENGIL	POR	2,434	457	168	6.9%
27	ORANJEWOUD	NETH	2,306	471	39	1.7%
28	BELLWAY	UK	2,339	4,195	487	20.8%
29	ISG	UK	2,162	118	-14	-0.6%
30	KELLER	UK	2,152	812	89	4.1%

TOP 10 RANKINGS (GLOBAL)

Source: Deloitte European Powers of Construction 2015

Ranked by Turnover

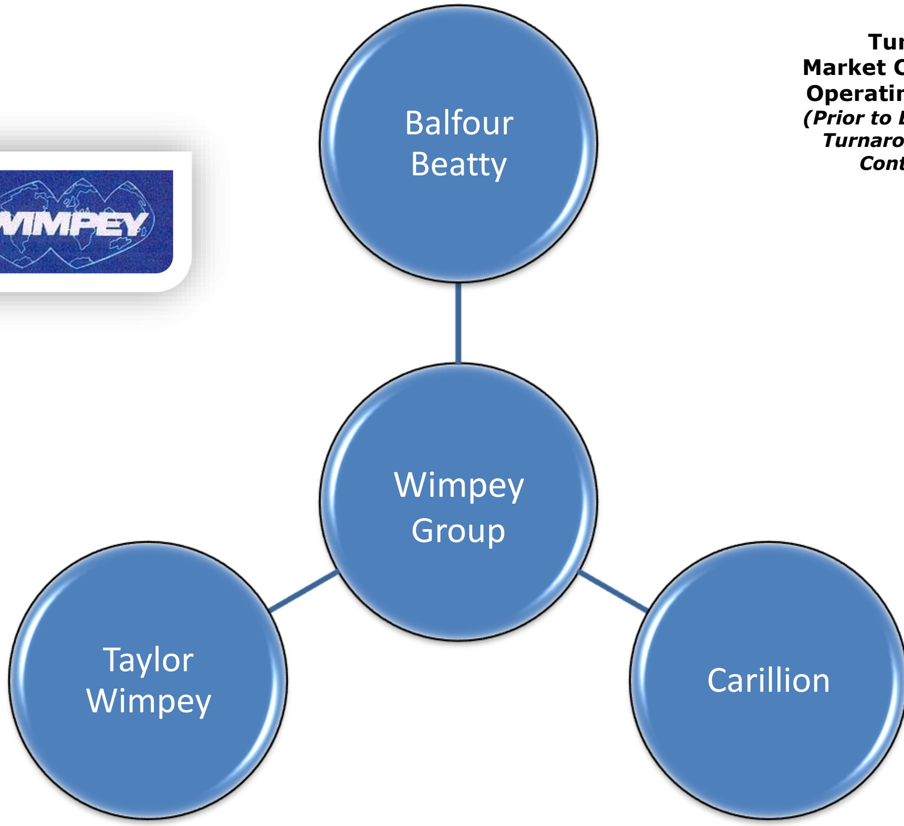
Rank	Company		Sales	Market Capitalisation	EBIT	EBIT %
1	CHINA STATE	C	126,278	26,981	6,752	5.3%
2	CHINA RAILWAY CONSTR	C	86,120	15,496	2,382	2.8%
3	CHINA RAILWAY GRP	C	86,034	15,978	6,982	8.1%
4	CHINA COMM (CCC)	C	57,880	15,212	3,700	6.4%
5	VINCI	FR	38,518	34,801	3,758	9.8%
6	ACS	SP	34,925	8,501	1,439	4.1%
7	BOUYGUES	FR	32,428	12,613	941	2.9%
8	ODEBRECHT	BRA	34,448	na	4,760	13.8%
9	CHINA METALLURGICAL	C	31,165	5,310	852	0.027338
10	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	**1,158**	**5.2%**

Ranked by Market Capitalisation

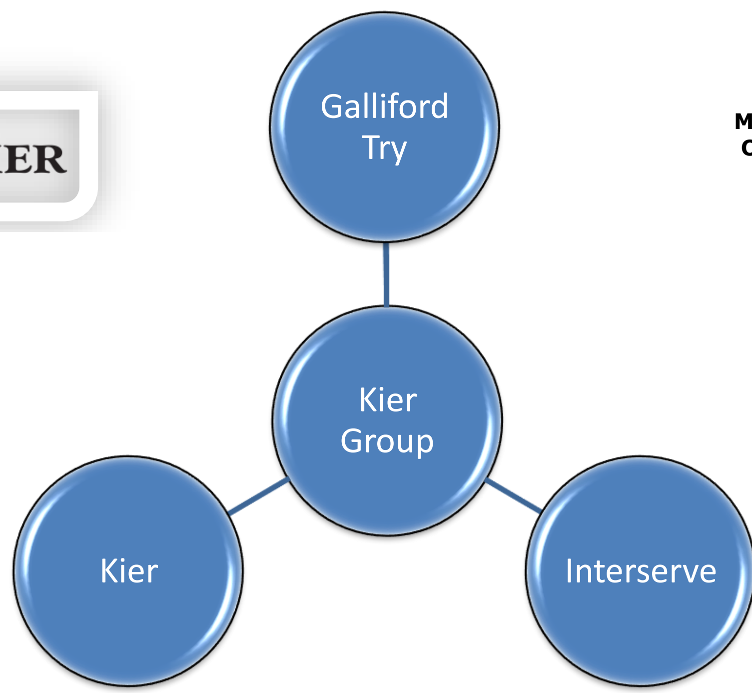
Rank	Company			Market Capitalisation	(Europe Rank)
1	VINCI	FR	38,518	34,801	1
2	CHINA STATE	C	126,278	26,981	
3	CHINA RAILWAY GRP	C	86,034	15,978	
4	CHINA RAILWAY CONSTR	C	86,120	15,496	
5	FERROVIAL	SP	9,701	15,270	2
6	CHINA COMM (CCC)	C	57,880	15,212	
7	**TW/ BB/CARILLION**	**UK**	**22,279**	**13,269**	3
8	BOUYGUES	FR		12,613	
9	BARRATT	UK	4,931	8,625	
10	ACS	SP	34,925	8,501	

Ranked by Market EBIT

Rank	Company		EBIT	EBIT
1	CHINA RAILWAY GRP	C	6,982	8.1%
2	CHINA STATE	C	6,752	5.3%
3	ODEBRECHT	BRA	4,760	13.8%
4	VINCI	FR	3,758	9.8%
5	VINCI	FR	3,758	9.8%
6	CHINA COMM (CCC)	C	3,700	6.4%
7	CHINA RAILWAY CONSTR	C	2,382	2.8%
8	ACS	SP	1,439	4.1%
9	EIFFAGE	FR	1,431	10.2%
10	**TW/ BB/CARILLION**	**UK**	**1,158**	**5.2%**

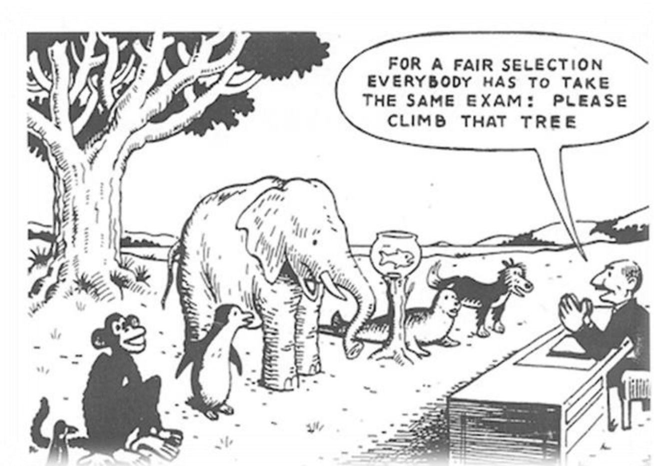


Turnover £14.7bn
Market Capitalisation £7.8bn
Operating Cash Flow £543m
(Prior to Expected OH Savings or Turnaround of Balfour Beatty Contracting Business)



Turnover £8.9bn
Market Capitalisation £ 2.9bn
Operating Cash Flow £409m

Acquisition Target



"Selection criteria"

CHAPTER 6

THE LOST CARILLION-BALFOUR BEATTY MERGER OPPORTUNITY (2014)

''

OVERVIEW:

Clearly Industry players and Analysts had mixed feelings about the failed takeover of Balfour Beatty by Carillion in 2014. This Chapter takes a closer look at the view-points with the benefit of hindsight. The "Battle of the Hard Hats" became a high profile contested bid, but with the consensus of Analysts at the time stating that synergistic savings were probably higher than Carillion had declared in its company statement at the time of the bid.

Balfour Beatty had issued a rebuff of the Bid listing 5 main reasons why in their estimation, it was better for the company to stay alone. Post Bid, Balfour's problems got worse, and new turn-around CEO James Quinn embarked on a 2 year "Built to Last" Rescue package. Notably Carillion Share Price has fallen since the failed Takeover Bid.

Whether the two companies should have reconsidered their opportunities to reopen discussions after 6 months is a question unanswered.

CHAPTER CONTENTS:

- BATTLE OF THE HARD HATS
- 2014 CASE FOR MERGER DEAL
- A POST-BID VIEW ON MERGER APRIL 2016-10-11
  CARILLION VIEW AT BID STAGE
- BALFOUR'S VIEW AT BID STAGE
- THE CITY'S VERDICT POST-BID
- POST-BID PERFORMANCE
- INDEPENDENT ANALLYSTS VIEW AUG 2016-10-11
  SHOULD CARILLION-BALFOUR RE-CONSIDER A MERGER IN 2017
- SHAPE OF A MERGED GROUP 2014
- SHAPE OF A MERGED GROUP 2017

(Refer to: APPENDIX II)

MERGER or ACQUISITION

"The account of events and dialogue between the two Chairmen/CEO and the reasons behind the move from agreed merger to contested bid were reported in the Financial Times and Telegraph editorials (See Appendix II). The accounts of clashes of opinion, events and the fatal flaws which caused the break-down in negotiations, seemed to revolve around some key issues:

- *Carillion pitched a straight forward Merger that would give Balfour shareholders 51 per cent of the combined company, though the line-up of top management made it clear it was a takeover.*
- *Balfour Beatty had the sense that Carillion had been disingenuous and was moving the goalpost over the Brinckerhoff sale at the last stage and didn't feel they had acted in good faith.*
- *To add to the anger, Balfour's executives learnt that Carillion had already approached banks some weeks prior to ask for a debt deal (ie. A Takeover) that included Parsons Brinckerhoff in the combined business.*
- *But Balfour was to reject the third and final offer, which represented a 36 per cent premium to the average price of Balfour shares in the month before news of the takeover deal leaked*
- *However, it is a fact that it was Balfour's board, rather than its shareholders, who decided the fate of the merger.*

  With the change in leadership at Balfour Beatty, maybe it's time to re-open positive dialogue."

CHAPTER 6

THE LOST CARILLION-BALFOUR BEATTY MERGER OPPORTUNITY (2014)

Industry players and Analysts had mixed feelings about the failed merger. Some thought Carillion was better off with a failed attempt as Balfour Beatty's dilemma worsened. Some felt Balfour Beatty and its shareholders had lost an opportunity to benefit from the synergies and opportunities the merger potentially presented. On balance, it was concluded as a bold move by Carillion management, and although unsuccessful demonstrates Carillion's likely leading role in the Industry's future.

The following is a collection of opinions and synopsis of views expressed by Analysts and Company Representatives before, and subsequent to the Bid.

1.GENERAL SYNOPSIS

- In the Contracting Sector, where consolidation is needed only the attempted Takeover of Balfour Beatty by Carillion made any headlines, apart from the Amec-Foster Wheeler merger. Several factors that analysts said made a merger attractive to both parties included Balfour Beatty's sale of FM division Workplace, which reduced competition between the two firms; Balfour Beatty's strength in the US and Carillion's strength in Canada; Carillion's de-risking its UK construction portfolio; and Balfour Beatty's wide construction services scope in the UK.
- Merger and acquisition activity normally gathers pace going into a recession and coming out of it, so maybe the timing was right.
- The industry was awash with M&A among engineering consultancies – The sale of Halcrow and Scott Wilson to CH2MHill URS, WSP buying Parsons Brinkerhoff from Balfour Beatty, and Aecom buying URS or Arcadis snapping up Hyder, as examples. This, it was concluded, is being driven by globalization of technical and engineering expertise. Bigger pockets are needed to resource increasingly mega infrastructure projects in countries.
- Bouygues, Vinci(which had a Major Projects Strategic Alliance with Balfour Beatty in 2008) and Skanska may be other firms that could show an interest in discussions with Balfour Beatty in the future. ACS subsidiary Dragados operate in UK, and could be interested, but ACS are currently focused on integrating Hochtief, now the Qatar Sovereign Wealth Fund has sold its interests. Skanska Bouygues, Hochtief and Vinci do not offer the same geographical and business overlap as Carillion and could not replicate the synergies, but they are already in JVs on large major projects in the UK, and may consider expansion via M&A.
- Arguably Balfour historically had a stronger name and reputation than Carillion's, certainly overseas. It's conjecture whether a merged Group would have maintained the Balfour Name. Carillion seemed to suffer little by the dropping of the Wimpey Brand, Mowlem, or McAlpine. With Balfour Beatty under new strong management, perhaps it's unlikely that the courtship with Carillion will be re-visited.
- Sometimes "Mergers" have benefits over Acquisitions. With a contested Acquisition, the potential is that the price gets pushed up too high, and puts into question the benefits to the Acquirers shareholders. A nil premium merger *might* have been a more viable option for a successful win-win deal, whereby no cash would change hands but shares would be offered in its place. The only risk with such a strategy, would have been that the door would have remained open for a separate bidder to come in and offer a premium bid. Nil premium mergers can be difficult to pull off – but there are successful examples in the industry to point at, such as the Tarmac (a precursor to Carillion) Wimpey asset swap and since then the merger of Taylor Woodrow and George Wimpey, two troubled housing Groups at the time.
- Both companies could have had the opportunity to value their businesses together in an open-book manner, with advisers. Aggressive takeovers do not afford that.

The Battle of The Hard Hats (2014)

Sorce: Evening Standard

Source: Internet (2014)

Market Capitalisation (Carillion):	**£1,242.28 m**
Market Capitalisation (Balfour):	**£1,653.31 m**
Shares In Issue:	**689.74 m**
Shares In Issue:	**430.30 m**

Source: Citywire Factsheet Figures (February 2016

2.CONSENSUS OF ANALYSTS VIEWS (2014)

- "Balfour Beatty and Carillion have the best opportunity to downsize their construction businesses as part of a merger in order to generate the savings required to satisfy shareholders. It's about defined value creation. If there is only £250m of synergistic cost savings (maybe could be even up to 1% of combined revenue?) and opportunity to consolidate the PFI portfolios (Carillion has been more active in trading its PFIs) while continuing to downsize the UK construction business, the deal could be cash positive.

- The synergistic benefits in UK construction are compelling for Balfour Beatty and Carillion. They are offices and people, making downsizing painful, but on paper it looks like it makes sense. Making the Balfour Beatty-Carillion merger stack up financially would necessitate trimming further UK construction capacity significantly, [but Balfour Beatty has been doing that already without the benefit of synergy savings].

- Carillion's historic approach to mergers and acquisitions has seen the firm bring in competing or complementary contracting companies including Mowlem, Alfred McAlpine, Wimpey and Eaga.

- [Despite the sale of Parsons Brinckerhoff], both companies are carrying levels of debt that make it unlikely there are opportunities for gearing to make an acquisition.

- Balfour has had a rough ride but it's no basket case, and as the industry comes out of recession and margins rise, there is plenty of scope for recovery, and if combined with Carillion, the merged Group would command a strong position in the UK, USA, Canada and the Middle East, with plenty of scope for growth, under combined corporate management.**"**

3. INDIVIDUAL ANALYSTS COMMENTS (2014)

Joe Brent, analyst of Liberum, said that "egos aside" the Carillion and Balfour Beatty merger "deal should happen" because the "synergy prize is too big to walk away from".

He said he thought synergies could be higher than the £175m Carillion said it was confident of achieving. "Our view is that synergies could be higher than this - perhaps £250m - making the economics of a deal difficult to ignore."

He added: "Historic deals would suggest that Carillion typically starts with an initial synergy target of circa 60% of their final objective, which would imply potential synergies of £290m.

Olivia Peters, analyst at the Royal Bank of Canada, said the strategy Carillion outlined for a combined business with Balfour Beatty "seemed sensible" and that the figure for savings from synergies between the two firms was "much higher than expected".

Andrew Gibb, analyst at Investec, said Carillion's continued desire to retain Parsons Brinckerhoff was telling.

Stephen Rawlinson, analyst at Whitman Howard, said: "Our sense is that the [merger] talks had been moving along quite nicely until Carillion realised that the cash flows from Parsons would be needed to fund the debt of the combined entity and possibly that strategically Parsons makes great sense in some territories as part of an integrated offering.

"Our view is that the level of potential savings could be much higher than indicated and the cost of achieving them much lower but Carillion is being cautious."

Rawlinson said the amount to be saved on an annual basis would be around 50% of the current level of underlying operating profit of the two companies.

"[A] merger with Carillion is not risk free but provides a break with the recent inglorious performance and has no greater risk than going it alone but a much higher level of reward."

The Changing Face of Contracting Businesses

Firms in the construction industry have always had to deal with the challenges of economic cycles and develop strategies to deal with the resulting fluctuations in their business environment. That (in some cases, coupled with the City's concerns about diversified Construction Groups being unfairly valued as less than sums-of-their-parts) led to M&A activity. These factors helped precipitate de-mergers, insolvencies, trade sales , flotations, reverse take-overs, and asset swaps, resulting in diversified asset based Construction Conglomerate businesses of the 1980s & early 1990s divesting their contracting arms. These contractors became diverse contracting and support services groups themselves, developing term contracts for their services businesses, and using cash generation and debt (some non-recourse) to fund new asset businesses of their own in the form of equity investments and involvement in significant portfolios of Public-Private Partnership (PPP) Projects.

4.CARILLION'S VIEW AT BID STAGE (2014)

Carillion said that a combined business would make savings worth £175m per year, it would seek to downscale Balfour Beatty's UK construction business along the lines of its own construction business, and refocus on support services.[Quinn has sinced pledged to take £100m cash per year out of costs].

Carillion added that it had received assurances with its banks that they would fund a combined group, which would have turnover of £14bn, to the tune of £3bn. Carillion said the proposed cost savings of £175m per annum would, when capitalised, add £1.5bn to the value of the company.

Carillion also said the savings would come from back office savings, procurement efficiencies, IT standardisation, property consolidation, with the implementation of Carillion's systems in a number of these areas. It said the merger process would entail a one-off cost of £225m.

It added it would seek to grow its services business, such that, within the medium term, two thirds of the combined group's operating profit would derive from services and investments with one third coming from construction.

Despite the reduction in construction business, it said the business plan envisaged that overall, the combined group's UK revenue would rise throughout the merger and restructuring.

The statement made clear Carillion's business plan involved the retention of Parsons Brinckerhoff, which Balfour Beatty has subsequently sold.

5.BALFOUR'S VIEW AT BID STAGE (2014)

The five reasons why Balfour Beatty believed it was better off going it alone were:

a. Balfour Beatty's UK construction revenues will plummet by two thirds
Balfour Beatty claimed that Carillion's proposals would reduce revenues at its UK construction arm by two-thirds. The division generated £2.8bn of revenue in 2013 and Balfour Beatty claimed a significant reduction in overheads would, therefore, be required in order to maintain profit margins at the business.

b. Any increase in the value of a merged company would be "materially lower" than the £1.5bn claimed by Carillion
Carillion had told Balfour Beatty's shareholders that a merged business would benefit from a £1.5bn increase in value as a result of cost-savings of at least £175m a year by 2016 but this claim was flatly rejected by Balfour Beatty saying any increase in the value of an enlarged company would be "materially lower" than the £1.5bn as a significant reduction in revenue at its UK construction arm would reduce the synergies that could be generated. The group insisted that cost savings driven by shrinking the business should not be confused with synergies and highlighted that the bill for combining the two firms would reach £225m.

c. Carillion's management has never before managed such a large business and the integration would be "complex"
Balfour Beatty pointed out that a merged company would have 80,000 employees and annual revenues of £14bn and would therefore be of a significantly larger scale and diversity than the Carillion management team has previously managed.

Keeping Parsons Brinckerhoff, Balfour Beatty's US consultancy business, as part of a merged company was said to likely exacerbate the scale of the challenge at a time when the management would be undertaking a fundamental downsizing of the UK construction business, It added: "The implementation programme would be complex, requiring simultaneous business restructuring, integration and outsourcing, at the same time as a significant IT change programme which is already under way. This questioned the applicability of historical benchmarks."

d. Thwarting the sale of Parsons Brinckerhoff would damage a "significant part of the value of Balfour Beatty"
Balfour Beatty said the sale of its US consultancy unit, Parsons Brinckerhoff, was already welll advanced and the value of the entire company could potentially be damaged if Carillion puts a halt to this process

e. Balfour Beatty can grow as a standalone company
The company claimed it could turn-around its UK construction business so that it is once again generating profit margins in line with its peer group. Balfour Beatty also said there was significant opportunity to reduce complexity and improve the risk profile of its business and its shareholders would reap 100pc of all of these benefits. The group added: "Balfour Beatty would be refocused as an Anglo-American construction and specialist services group where there is strong US market opportunity and UK margin recovery potential." The group's over-arching investments business was claimed to be value creating and synergistic. Joint ventures in the Far East and the Middle East were to be retained subject to them being value accretive.

6.POST BID PERFORMANCE (2015)

Since the failed negotiations, Balfour stumbled in 2014/15 from one problem to the next. In contrast, Carillion made steady progress with its strategy of focusing on controlling costs and targeting high-quality projects. Balfour's only profitable and healthy business, the Parsons Brinckerhoff consultancy, was finally sold in October 2014. While the cash helped to strengthen the balance sheet, this sale may seem short-sighted in years to come. Carillion's dividend has risen every year since 1999, climbing by 344% from 4p per share, 2014 level of 17.7p per share. In contrast, Balfour's dividend was cut by 60% from 14.1p to just 5.6p in 2014. Even during the good times, Balfour Beatty's operating margin didn't make it much higher than 3%. In contrast, Carillion's mix of infrastructure and support services has been more profitable. The firm's operating margin has averaged 4.3% since 2009 and was 5.4% in 2014. Under new management Balfour has since made better progress in its turnaround in 2015/16. The City seems comfortable with the progress being made by Leo Quinn (new CEO) with his 'Build to Last' two stage strategy.

7.RECENT INDEPENDENT ANALYSTS VIEWS (2016)

Hargreaves,"The Motley Fool", reported, as of August 12th 2016, that:

"Shares in Balfour Beatty are charging higher after the company reported its first upbeat set of results in a long time. The company also restarted its dividend payout as its turnaround programme started to bear fruit.

Indeed, Balfour reported a pre-tax loss for the six months to the end of June of £21m, down from the £150m loss reported a year earlier, after Balfour booked write-downs on onerous contracts in its UK construction arm. Revenue dropped to

£3.3bn from £3.5bn, but cost reductions helped improve margins and boost profitability. The company reported that its order book at the end of the first half had risen to £12.4bn from £11bn at the end of December and ahead of the £11.3bn recorded at the same period a year earlier.

These results show that Balfour's turnaround plan is starting to yield results, but the company still has a long way to go before it can claim to have put the mistakes of the past behind it. What's more, from an investment perspective, Balfour looks like a poor bet compared to other construction companies such as Carillion and Costain.

Over the past five years, Balfour has struggled with one disaster to another. Since 2011, the company has slumped from a pre-tax profit of £246m to a loss of £304m in 2014 and last year the company reported a full-year loss of £199m. Management seems to have got a handle on losses this year, however, and City analysts are now predicting a pre-tax profit of £77m for 2016. Next year, analysts have pencilled-in a pre-tax profit of £119m, which is still around half the level reported for 2011. Over the same period, the company's annual revenue has dropped from £9.5bn to £7.1bn.

But even if Balfour meets City expectations for growth this year the company's shares still look expensive. Based on current forecasts the company's shares are trading at a forward P/E of 20.4.

Carillion's shares currently trade at a forward P/E of 8.3, less than half the valuation of Balfour. Further, the shares support a dividend yield of 6.6% and the payout is covered twice by earnings per share. Unfortunately, City analysts don't expect much in the way of growth for the company this year but next year analysts are predicting earnings growth of 6%.

Overall, even though Balfour's shares are rising today, the company might not be the best investment in the construction sector. This maybe reflected in expectations of valuation should the groups reconsider a merger."

8. VIEWS ON NEED FOR SIZE FOR GLOBAL MARKETS (2016)

So, the Opportunity for a Carillion Balfour Beatty Merger passed by in 2014. New focus is on independence and The Risk Reward Assessment and focus on short term shareholders' return which are always priorities for UK Publicly Listed Companies. One of the arguments for a merger of Carillion and Balfour Beatty was directed at the need for size in terms of being able to compete on an international basis on major projects.

In terms of Global construction, the Fastest Growing Markets of the future are in Emerging Markets, while China and USA represent 36% of the Global Market Output. Long Term Growth Strategies for some of the European Majors include addressing Global Trends in their expansion plans. Spanish Groups, for example (ACS and Ferrovial) have targeted the USA as well as Spanish speaking Latin America. UK Groups have had mixed experience in Developing Nations and any M&A activity associated with international expansion, is more likely to focus on businesses in Developed Regions of the world, with future expansion geographically by M&A elsewhere, a longer term objective.

The message for UK Groups remains however, whether to merge or acquire, or stand still and risk being acquired as the Global Contractors get bigger. It is the consensus view that Market Consolidation will happen in the UK sooner or later.

9. CLOSING SENTIMENTS ON THE MERGER

James Quinn, of the Telegraph summed it up rather well. "In recognition of Richard Howson, Chief Executive, and trusted Lazard adviser Nicholas Shott, the sense of timing of the acquisition bid in 2014 was perfect. Balfour Beatty's share price was deflated, it lacked a chief executive [at the time], and there was a sense among investors that an exit route was needed." What was on offer was a merger of relative equals, creating a £3+bn construction giant with real weight in the industry. To investors it seemed an obvious combination, but to Balfour's then chairman, Steve Marshall, who was caught up in a fire-sale of its US consultancy business, it was a distraction.

When the merger talks ended in late July 2014, it was a knock to Balfour's share price, and to investors. Since then, despite the sale of the US business, Parsons Brinckerhoff, to Canada's WSP for $1.24bn (£807m), the news has continued to be negative. "The arrival of turnaround specialist Leo Quinn should have signalled the beginning of the end of the trouble," said James Quinn [no relation].

"But since then there have been a further two profit warnings as the bad news continued to flow. At first glance, the prognosis is not good. Balfour warned of a reduction of pre-tax profit of between £120m and 150m in the current financial year, owing to what it opaquely called 'legacy issues' in the UK, US and Middle East – of which the UK accounts for roughly two-thirds. These legacy problems relate to poorly negotiated contracts that Balfour is losing money on. They are either subject to delays and over-runs or, worse, were wrongly bid for in the first place."

Quinn's strategic review is uncovering, it would appear, a past tendency within the company to focus on revenue rather than profit. Managers under-priced the risk, and so bid for contracts on which money could not be made.

Under-bidding is commonplace in parts of the construction industry on certain projects, but on the scale it appears to have gone on at Balfour, it causes obvious problems. More worrying for investors is that Quinn's review is not over. Under disclosure rules the company has to declare all write-downs, and it is far from infeasible to think that there will not be more to come. The usual practice for new Chief Executives is however to take as big a write down as possible, as soon as possible, to demonstrate the effectiveness thereafter of a turn-around.

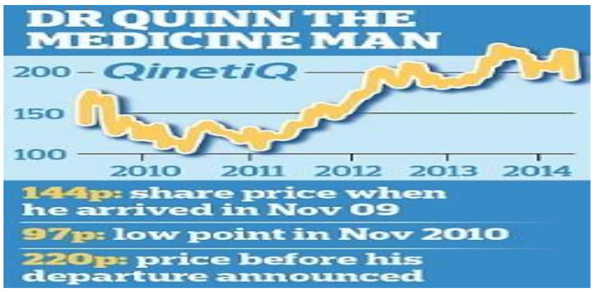
But in a business created by a series of acquisitions which were never centralised, there are considerable costs to come out. Quinn has already said he will remove £100m of permanent costs from Balfour over two years, by bringing together a series of human resource, finance, technology and legal departments, among other things.

There is some brighter detail. Net cash at year end far exceeded than in 2014, and there is evidence that Quinn is beginning to have an impact.

Quinn has said he wants to focus on cash. But he also needs to set out a firm strategy, outlining those areas in which he thinks the business can still make money, and those areas which it will steer clear of.

There are those in the market who think the company – whose current market capitalisation of £1.92bn is still considerably lower than at its peak four years ago – remains a bid target, following seemingly unfounded rumours of a Chinese admirer of recent months. It may be that a white knight appears on the horizon, offers a decent premium and investors end up sitting pretty.

Alternatively, it can take the initiative now, and open up dialogue again with potential merger partners (other than Carillion), to ensure it doesn't become the most obvious merger candidate of UK majors that should have started the consolidation process- that never happened.



Source: This is Money

Quinn has a reputation for 'Turn-arounds'.

Quinn said that he will conduct his own review. He added: 'It is too early to pontificate on a possible sale, but if we perform well we should remain independent. I am going in with no preconceptions.'

10.MERGER SIZE COMPARISON (2014)

The proposed merger would have created a company with a turnover nearly four times that generated by Laing O'Rourke and around six times that of Interserve and Morgan Sindall. Reported by CN News, the Figures are given below:

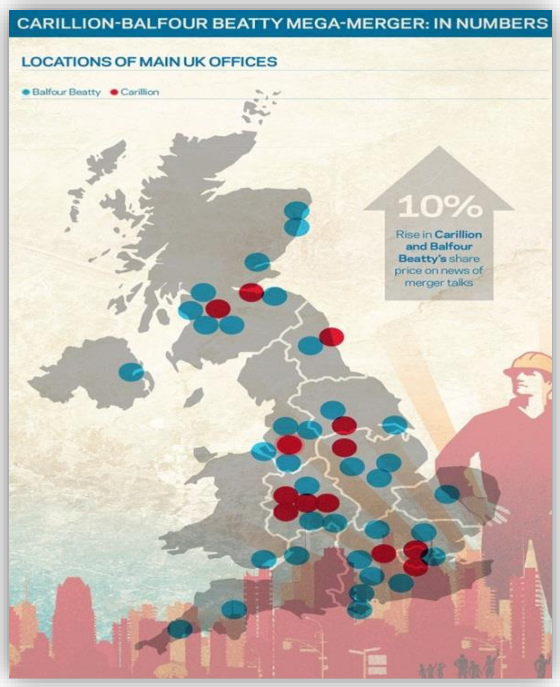
a).Construction News Analysis

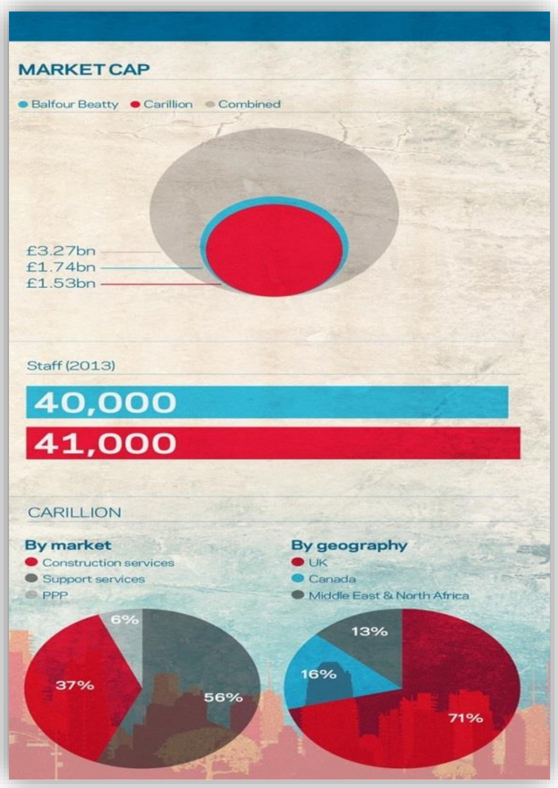
Source: CN

(Please Refer to Appendix II- Power Point Presentation and Chapter 3 'Competitor Analysis & Financials' for a more detailed up-to-date Analysis of Balfour Beatty Financial Positions in 2016, and debate over the merits of re-considering a Merger between the Groups)

b) Building Magazine Analysis

SHAPE OF A MERGED GROUP (2014)





Source: Building.co.u

SHAPE OF A MERGED GROUP 2015/2016
Carillion Mkt Cap- £1068m Carillion Debt- £188m Carillion Revenue- £3951m PBT- 155m Pension Deficit- £406m
Balfour Mkt Cap- £1915M Balfour Debt- £155M Balfour Revenue- £6955M PBT- £(£200M) Pension Deficit- £146m

Valuation

"The Chinese want to know what capitalism is worth and will we take half for it".

On Hinkley Moor Baht 'at!

CHAPTER 7

POTENTIAL INVESTORS & INTERESTED THIRD PARTIES

OVERVIEW:

This Chapter explores the likely Sources of Finance and External Capital which might influence the Industry and also bring about investment in companies, not just projects. The Top Ranking Lists and General Overviews are given for the entities in South East Asia and China, Sovereign Wealth Funds, Continental European Players, and Private Equity Firms- that may be interested.

The effects of Cross-Rail and other Major Projects are mentioned as enticement particularly to the European Companies. Specific note is made of the domestic situations in Spain and France.

In terms of general investment trends, Foreign Direct Investment (FDI), the Government's National Infrastructure Plans and Overall Public Spending is discussed, with conclusion over opportunity and threat for the large UK players. Finally note is made of the innovative forms of Government Support, specifically the GSP being pioneered on Thames Tideway project to mitigate risk for the private sector and enhance appetite for investment in very large projects.

CHAPTER CONTENTS:

- LIKELY SOURCES OF EXTERNAL CAPITAL
- GENERAL INVESTOR OVERVIEW
  - -Domestic M&A
  - - SE Asia & China
  - -Sovereign Wealth Funds
  - -Continental Europeans
  - -Private Equity
- TRENDS IN UK FDI
- GOVERNMENT SUPPORT PACKAGES

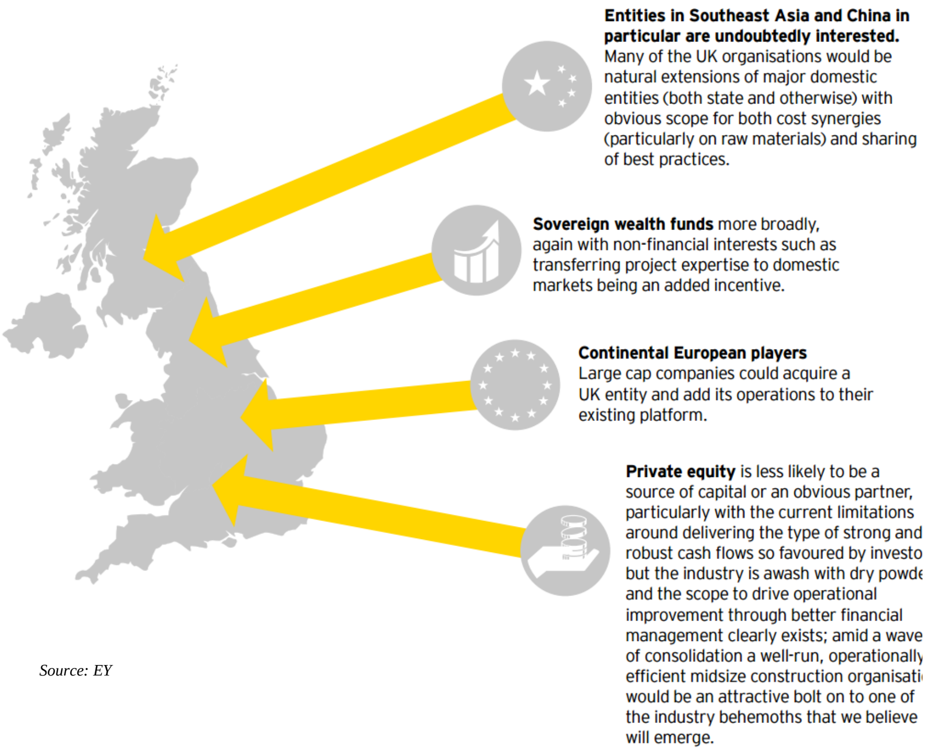
Investment

"A good project will always attract investment"

CHAPTER 7

POTENTIAL INVESTORS & INTERESTED THIRD PARTIES

LIKELY SOURCES OF EXTERNAL CAPITAL



Source: EY

OVERVIEW

1. Opportunities for Domestic M&A

These are the "Elephants in the Room", in a domestic market crying out for consolidation. The candidates for Mergers and Acquisitions are from and within the Top 10 British owned UK Players:

Balfour Beatty
Carillion
Interserve
Kier Group
Taylor Wimpey
Morgan Sindall
Galliford Try
Laing O'Rourke
Galliford Try
Costain

2. Entities in S.E. Asia & China with Vested Interests

Chinese Foreign Direct Investment in the UK is on the increase across several Infrastructure sectors and Real Estate. The investment in Hinkley Point by China's Sate Nuclear Company, is one example. 4 of the Top 10 Global Construction Groups are also Chinese. China Communications Construction (CHEC) worked closely with Costain for several years, and it was widely rumoured that a large Chinese contractor was eying up Balfour Beatty.

Sales (US$ million)	Company	Country
126395	China State Construction & Engineering (CSCEC)	China
96769	China Railway Group	China
93645	China Railway Construction Corporation	China
58214	China Communications Construction	China
51798	Vinci	France
46276	ACS	Spain
37200	Bechtel	US
35177	Bouygues' Construction Divisions	France
34288	Metallurgical Corporation of China (MCC)	China
29318	Hochtief	Germany

3. Sovereign Wealth Funds

Sovereign Wealth Funds are active investors in infrastructure, and infrastructure companies, and will increasingly be interested in equity stakes in Major Construction Groups, viz. Qatar Investment Authority minority interest in Hochtief. The World's Top 10 SWFs are:

Norweigan Goverment Pension Fund
Abu Dhabi Inv estment Authority
SAMA Foreign Holdings
China Investment Corporation
SAFE Inv Company
Kuwait Inv Authority
Hong Kong Monetary Authority
Gov of Singapore Investment Corp
Temasek Holdings
Qatar Inv Authority

4. Continental European Players

There are several large European Contractors already active in the UK, either through subsidiaries, eg. Amey (Ferrovial),Taylor Woodrow (Vinci) and Nuttall(BAM), or in Major Project Joint Ventures, eg. ACS, Bouygues and Skanska. Al of the Top 10, are potentially interested parties:

Vinci (Taylor Woodrow)
ACS (Dragados/ Hochtief)
Bouygues
Skanska
Strabag
Eiffage
FCC
Acciona
BAM (Nuttall)
Ferrovial (Amey)

5. Private Equity Firms

PE Firms may well become involved in opportunistic equity/debt funding arrangements. Their involvement in Europe has been on the up. In the UK 3i historically took a leading position in companies in the Services Sector, including Enterprise. PE's normally expect to exit a company within 5 years via a trade sale or IPO. The recent sale of Hanson's Building Products business also went to PE Firm Lone Star. The Global Players include the following US/UK leaders:

TPG (US)
Golman Sachs (US)
Carlyle Group (US)
Kohlberg Kra Roberts (US)
Apollo (US)
Bain Capital (US)
CVC Capital (UK)
Apax (UK)
First Reserve Corp (UK)
3i (UK)
Abraaj Group (UAE)

GENERAL INVESTOR OVERVIEW

1. Opportunities for Domestic M&A

The opportunities for Domestic M&A in UK Construction is a main theme of this Report, and discussed in full, in other Chapters

2. Entities in S.E. Asia and China with Vested Interests

Source: Bloomberg- UN Conference

Chinese investment over the last 10 years has increased significantly. It most recently has been the driver for a number of high profile London property developments – including the construction of a third London business district.

In 2013, total inward investment into the UK was US$ 37 billion, according to the 2014 World Investment Report from the UN Conference on Trade and Development. The UK received the most inward investment out of all European countries. Though the US and Western Europe have traditionally been the biggest investors into the UK, investment from China has increased rapidly. *PWC* reported that China's investment into the UK increased 14 fold during the last 10 years (albeit from a low base) – compared to investment from the US, France and Germany, which doubled during the same period. These investments have been important in creating or safeguarding a significant number of UK jobs.

Table 4.2 – Top 10 sectors for China's FDI flow into the UK (2003-2012), by total capital invested

Sub-sector	Total capital invested (US$ millions)	Jobs created	Capital invested as % of total from China in this period
Retail banking	358.6	721	15.2
Solar electric power	310.1	73	13.1
Automobiles	266.9	1,064	11.3
Communications equipment	193.9	1,036	8.2
Bio mass power	156.3	6	6.6
Light trucks & utility vehicles	96.4	172	4.1
Insurance	83.7	44	3.5
Clothing & clothing accessories	74.2	568	3.1
Computer & peripheral equipment	59.9	235	2.5
Other petroleum & coal products	59.6	56	2.5

Source: PwC

Large figures have been reported in relation to Chinese investment in existing commercial properties – some of these deals being:

- In June 2013, China Life Insurance (a Chinese state backed entity) with Qatari Holdings (a sovereign wealth fund subsidiary) acquired a majority stake at Canary Wharf tower, 10 Upper Bank Street, for £795 million. The office is one London's largest – with China Life taking 70% ownership of the building from Songbird Estates (which is 15% owned by Chinese Sovereign Wealth Fund, China Investment Corporation (CIC)).
- In early 2013, CIC purchased Chiswick Park, a London business park for £780 million from Blackstones. The 33 acre campus style development serves as the European and UK headquarters for more than 20 companies, including Paramount Pictures, Discovery Channel and Tullow Oil. The CIC owns 9.6% of Blackstones, after investing $3 billion in the private equity group in 2007.

Future years will see three new power stations developed and built in the UK. A £6 billion investment for a stake at Hinkley Point C in Somerset, a similar investment in Sizewell in Suffolk and the complete design, build and operation of Bradwell in Essex, expected to be in the region of £25 billion. This will be the UK's first new nuclear power station for 25 years.

During a five-day tour of China in September 2015, George Osborne invited Chinese companies to bid on the UK's HS2 rail network and other major UK infrastructure projects, many in the north of England. The first phase of HS2 links London to Birmingham and Chinese companies have been encouraged to partner with British companies and jointly bid for the work. Construction of HS2 will create 25,000 jobs, the government says, and the full HS2 network has a current budget of £42.9 bn.

Chinese investment is also increasing in other construction projects across the UK. Minsheng Investment has recently signed a deal to invest £1 billion in the development of the Royal Docks as a new commercial district. This project will involve building office towers and an Asian business park next to the University of East London.

An £800 million expansion of Manchester Airport is currently under construction. This investment came from Beijing Construction Engineering Group and is the largest single Chinese investment in the UK (mentioned below).

Currently, these and a number of other construction projects planned by Chinese enterprises are of high value:

- Dalian Wanda, one of China's largest construction companies, is planning to build a £700m mixed used development at 1 Nine Elms, Vauxhall, London. The development will consist of new offices, homes, luxury hotel and leisure and retail areas. Dalian Wanda are also required to pay £14m towards the building of the extension to the Northern Line, £4m towards Crossrail and an extra £300,000 to provide employment training locally
- In July 2014, Advanced Business Park (ABP), a Chinese developer, received planning permission from Newham Council to commence the £1 billion construction of offices, apartments and retail space

on currently derelict land in the Royal Albert Docks area

- Chinese investor Beijing Construction Engineering Group (BCEG), along with the Manchester Airports Group, Carillion and the Greater Manchester Pension Fund, has committed £800 million to the development of a new office, manufacturing, logistics and leisure city around Manchester Airport.
- In 2013, The Zhong Rong Group announced its proposal to rebuild the Crystal Palace – 77 years after it had burnt down in 1936. The project, estimated to cost £500 million, is currently in consultation and design development,

In the biggest Chinese investment outside London, Sheffield city council announced that an initial £220m would pay for four or five city centre projects over the next three years and create “hundreds if not thousands” of jobs in south Yorkshire.

The partnership is between Sheffield city council and Sichuan Guodong Construction Group, one of the biggest firms in China’s south-western Sichuan province.

Over the next five years Chinese acquisitions of foreign companies are set to double, and by 2020 they could quadruple, according to Charles Wolf Jr, a distinguished international economist

3. Sovereign Wealth Funds

The Top 10

Top 10 sovereign wealth funds				
Country	SWF name	Assets ($ bn)	Inception	Origin
Norway	Government Pension Fund Global	$838	1990	Oil
UAE (Abu Dhabi)	Abu Dhabi Investment Authority	$773	1976	Oil
Saudi Arabia	SAMA Foreign Holdings	$675.9	N/A	Oil
China	China Investment Corporation	$575.2	2007	Non-commodity
China	SAFE Investment Company	$567.9*	1997	Non-commodity
Kuwait	Kuwait Investment Authority	$410	1953	Oil
China (Hong Kong)	Hong Kong Monetary Authority Investment Portfolio	$326.7	1993	Non-commodity
Singapore	Government of Singapore Investment Corporation	$285	1981	Non-commodity
Singapore	Temasek Holdings	$173.3	1974	Non-commodity
Qatar	Qatar Investment Authority	$170	2005	Oil & gas

Source: Sovereign Wealth Fund Institute

Source: Economist.com

Norges Bank (manager of Norway’s Government Pension Fund Global)

‘Easily the most open and likely to communicate with issuers... strong advocate of good corporate governance practices… such as board independence and sustainable practices.’

Abu Dhabi Investment Authority

‘Tends to be somewhat less transparent… Abu Dhabi favours technology and financial… consumer services and industrial companies… heavily invested in North America and Asia… has a London-based presence.’

China Investment Corporation and the State Administration of Foreign Exchange (SAFE) Investment Company

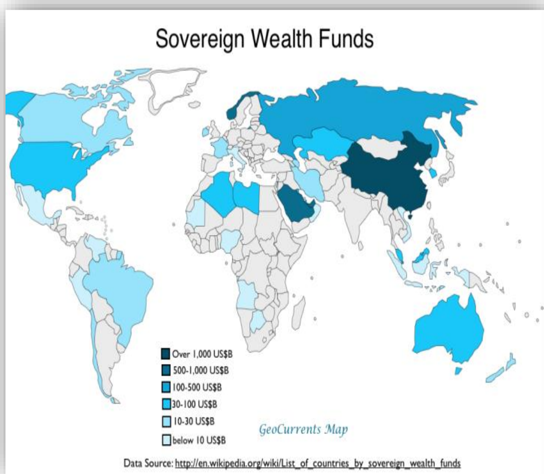
‘Historically secretive, [both] have improved their disclosure policies significantly in recent years, although a large portion of their investments remains a mystery… (SAFE is) opening an office in New York to handle investments in real estate and other US assets.’

Kuwait Investment Authority

‘Does not publicly disclose many holdings despite frequently meeting with issuers… UK office in particular often meets with management of both US and European companies… increasing investment in infrastructure and real estate.’

Government of Singapore and Temasek Holdings

‘Offices in New York and London where issuers frequently meet with analysts and portfolio managers… fairly diverse, though financials, technology and consumer goods companies are held most widely... heavily invested in Asian financial firms.’



Source: Wikipedia-Sovereign Wealth Funds

Infrastructure Project Companies

The vast majority of executives at large pension and sovereign wealth funds plan to focus more on portfolio construction over the next five years rather than simply chasing alpha. The majority also plan to build direct investing capabilities in private equity, infrastructure and real estate, and also invest further resources to improve understanding their liabilities. But the Qatari Sovereign Wealth Fund did invest in Hochtief as one example of an investment not directly in an infrastructure project/company.

A management consulting firm surveyed 50 plan executives from a total of 27 global pension and sovereign wealth funds with collective assets of $7.4 trillion under management The biggest takeaway from the survey was a renewed focus on portfolio construction.

Infrastructure Co-investing is a natural fit with the infrastructure sector, where the ticket size is typically high and privatised assets are normally sold in public auctions. Sovereign Investors can enter into public private partnership projects or team up with infrastructure asset managers to seize investment opportunities in this asset class. Competition is fierce, and it is not uncommon to see several consortia, typically comprised of a GP and a number of LPs, competing for the scarce high quality assets in developed markets. Recent examples include Thames Tideway Tunnel (also known as London Super Sewer), where the bidding consortia included a number of infrastructure funds and institutional investors, chasing alpha. The majority also plan to build direct investing capabilities in private equity, infrastructure and real estate, and also invest further resources to improve understanding their liabilities.

"No prediction can be made as to which SWF might consider a large investment in equity or convertible debt in the UK, but it's food for thought. QIA's investment in Hochtief, is testament to a willingness to do so."

4. Continental European Players

As the fastest growing of Europe's five big construction economies, the UK is an obvious port of call for companies seeking to expand beyond their home markets, and a lot of the European main contractors have been looking at the UK, who might not have been before. Bam, Dragados, Hochtief and Vinci that hardly appeared on bidding lists prior to the recession feature regularly now, and companies that used only to go for trophy contracts are bidding more often and for lower value projects. Additional competition could hit margins. Greater competition could have a knock-on impact on prices, as competitive pricing could be part of their entry strategy. Alternatively they may seek further M&A to develop established positions.

The Cross-Rail Effect

In part the answer to the European question is that the increased interest in the UK has happened already. Because the recessions in countries such as Spain - which saw construction output contract by about 80% between 2007 and 2013 - have been so deep and long-lasting that the push to secure more work abroad began several years ago. To take just one example, two Spanish contractors were awarded major roles on Crossrail.

However, the trend does not apply across the industry as a whole, with European successes largely restricted to major projects, mostly in civil engineering, and for public sector clients. Crossrail is a good example, but so too is Dragados' win on the refurbishment of Bank tube station in the City of London. The fact that European competition is being most keenly felt on such projects makes sense on several levels. First, it isn't really worth the investment in UK offices for foreign contractors to bid for work on projects worth less than about £50m. But perhaps more importantly, these projects tend to be for public sector clients that are legally bound to put contracts out to tender at an EU-wide level and are monitored on their procurement processes.

So large European and US competitors are looming in the shadows and continue to be willing to joint venture, where mega projects are in the offing, combining capacity and local knowledge. Post-Brexit, this trend could well turn into full merger and acquisition activity to secure their UK subsidiaries' interests, particularly when their home markets are depressed, as the case with the Spanish companies at present.

Spain

Out of the "big five" - Germany, France, Italy, Spain and the UK - Spain's construction market was hit hardest by the recession. Following the nation's misguided real estate boom, in which more houses were built over a decade than in France, Germany and the UK combined, the industry crumbled as the economy collapsed.

- The total loss of Spain's construction output between 2007, when the country's housing bubble peaked, and 2013 reached 80%.
- Unsurprisingly, even Spain's strongest firms are suffering huge losses, with industry giant ACS recording a loss of €1.9bn in 2012.
- The Centre for Economics and Business Research estimates that 4.7 million jobs were lost as a result of Spain's construction industry collapsing. "Be wary of Spanish intents, they are in survival mode."

In response, the internationalization of Spanish-based construction companies continues. Spanish outbound M&A activity has been mainly transcontinental. Outside the UK, the main target markets are Anglo-Saxon markets (the United States, Canada, UK/ Ireland and Australia), Latin America (Colombia, Peru, Chile, Mexico and Brazil) and the Middle East and India. Secondly, Spanish construction companies continue to divest and reposition core divisions, bolstering businesses with activities such as industrial construction and urban services concessions (for instance water and waste management), whose margins are higher and, in case of concessions, whose cash flows are more stable and regular. Finally, the increasing presence of institutional investors on the infrastructures market is facilitating construction companies to carry out an exit strategy. The development strategy is mainly driven by the EPC
activity. It generally implies a disposal of the stakes in PPP projects once these are fully operational. This way, Spanish constructors can increase recourse to the capital markets as a source for funds, for both the development of new projects and the refinancing of the businesses. Finally there are Spanish investors in the UK Utilities sector, eg. Iberdrola's ownership of Scottish Power.

France

Since 2008, the public work sector in France has been continuously declining, primarily due to a reduction in public spending, except for a slight upturn in 2011. This trend deteriorated further in 2014/15.

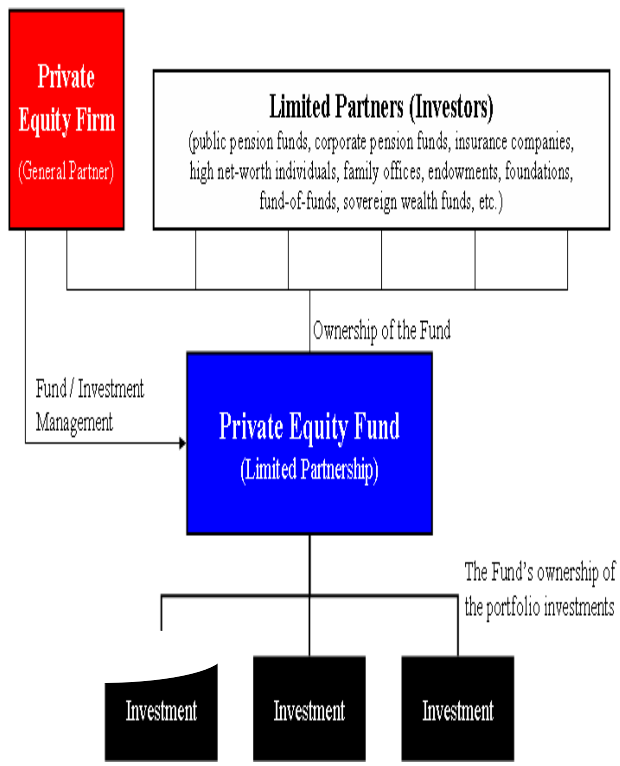
Given the lack of growth in their home market, the main players in the French construction market (Vinci, Bouygues and Eiffage) have continued to develop internationally, partly fuelled by mergers and acquisitions. The deals of the major French construction companies have been mainly intercontinental. Eiffage targets Africa and the Middle East (and more recently Latin America), Bouygues targets Canada, and Vinci's energy division (Vinci Energy) targets Asia and the Pacific, while its subsidiary Eurovaria is targeting the Americas

5. Private Equity Firms- trends in Europe.

Rank	Name of the firm	Capital Raised as of Apr 2011 (billions of USD)
1	TPG Capital	$50.55
2	Goldman Sachs Capital Partners	$47.22
3	The Carlyle Group	$40.54
4	Kohlberg Kravis Roberts	$40.21
5	The Blackstone Group	$36.42
6	Apollo Management	$36.42
7	Bain Capital	$33.81
8	CVC Capital Partners	$29.40
9	First Reserve Corporation	$25.07
10	Hellman & Friedman	$19.06
11	Apax Partners	$17.20
12	General Atlantic	$16.60
13	Warburg Pincus	$15.00
14	Cerberus Capital Management	$14.90
15	Advent International	$14.52
16	Permira	$13.67
17	Oaktree Capital Management	$13.05
18	Terra Firma Capital Partners	$12.25
19	Providence Equity Partners	$12.10
20	Clayton, Dubilier & Rice	$11.40

Source: Internet

The activity of US-based businesses in Europe can be considered to be remarkable, as US-based construction companies are not known for their international orientation. The total of 30 inbound acquisitions since 2010 shows that US companies are the most active players on the European construction market. Further analysis of these inbound deals shows these bidders are mainly private equity or real estate management firms. A total of 14 acquisitions were made by private equity firms. These deals by US private equity firms account for 46.7% of the total of inbound US intercontinental deals since 2010. This figure is relatively high, compared to the 26% average share of PE deals in the European construction sector since 2010. Private equity stake deals BPI France SA and BNP Paribas Development SA have acquired a 20% stake in GCC SAS, the France-based construction company. The transaction was financed with €40m senior debt. GCC reported revenues of €683 million for the year 2014Private equity over the last years has seen an increase in the number of deals by private equity companies in the European construction sector. Investment in the construction sector by private equity firms has been picking up in recent years. Activity increased in 2012, though it was not backed up by a corresponding number of deals. Since then, the percentage of deals has almost doubled to 27% in 2015, up from 10% in 2012 and 19% in 2013.



Source: Internet

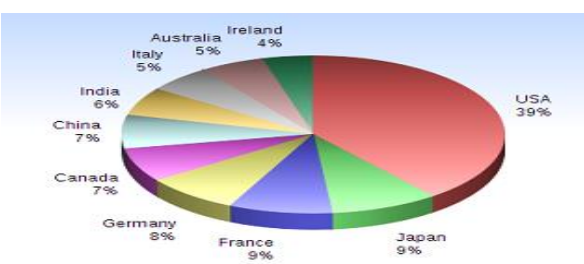
Private equity firms had been generally acquiring business units and unique construction companies to add to their current business offerings. In 2012, they switched to funding construction businesses. In 2013, there was yet another switch, to long-term infrastructural projects and venture capital financing. Over the past years, the pure construction services companies gained renewed attention from PE, with 15 deals recorded in 2015 compared to 8 in 2013. The improving construction market directly impacts the construction services sector due to the shorter lead time of projects. Combined with new projects started by construction companies the services sectors stands to benefit. Additionally, the supply chain pressure in the construction sector will most likely continue to improve the pricing in the construction services sector.

PE acquisitions in the sectors heavy construction and residential construction remain relatively stable. Furthermore, PE invests mainly in specialised companies Only an average two deals where PE acquires a diversified construction company are recorded per year. Additionally, when PE does invest in diversified companies this is mainly to acquire a minority shareholding. In 2015, PEseems to be more prominent in countries with a positive outlook for the construction market in the near future. Take for example Poland, in 2015 PE invested about PLN 718m (€175m) in GTC S.A. (LoneStar) and PLN 1.2 bn (€289m) in Echo Investment (Oaktree Capital Management).The trend of acquiring Polish construction companies by large global asset management companies or global private equity houses is likely to continue, as they seek to capitalize on the promising market perspectives in Poland. Besides the fact that private equity seems to become more active in the construction sector, it invests in the largest deals as well. Over the past years, the average PE deal size was between €200m to €300m.The 2015 average deal value of disclosed PE deals is €675m compared to €63m of strategically oriented deals. The €675m average in 2015 is strongly impacted by a couple of billion dollar PE deals, including the acquisition by Gazprombank OAO of Stroygazconsulting LLC, a Russia-based company developing large-scale construction projects, for approximately €6.6 billion.

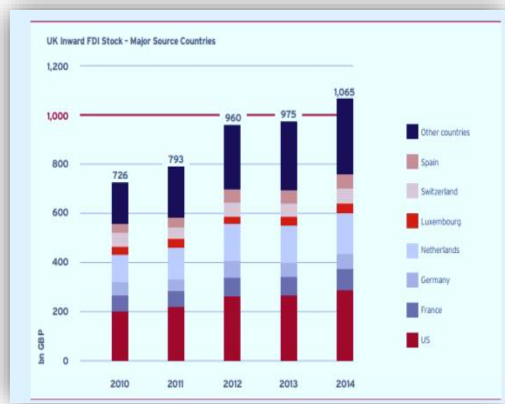
PE interest in M&A in the UK is difficult to predict, and will likely be deal opportunistic.

UK FDI

UK FDI by COUNTRY



TRENDS IN FOREIGN DIRECT INVESTMENT IN UK



Source: Office for National Statistics/OECDStats

UKTI Investment Results 2014/15

The UK's exceptionally strong performance in the European and global FDI markets in 2014 was borne out by UKTI's official inward investment results. During 2014/15 UKTI recorded a total of 1,988 FDI projects successfully landing in the UK, up by 12 percent year-on-year, and the strongest performance since records began in the early 1980s. UKTI's FDI figures differ from other sources due to differences in methodology and verification criteria. For example, UKTI reports a broader category of foreign investment (e.g. mergers and acquisitions) as well as those projects not publicly announced by the companies involved, hence not captured by external databases, such as FT and EY. UKTI and its partners across the UK supported the delivery of 1,610 projects, around 81 percent of the total number of successful FDI projects recorded. This represents a 10 percent increase in supported projects compared to 2013/14. The total value of investment commitments and projects in infrastructure and regeneration was more than £13bn last year.

The Government's National Infrastructure Plan (NIP) sets out an ambitious vision to 2020 and beyond, identifying a pipeline of £466bn of planned public and private investment – most of which is needed in the energy and transport sectors. Strategic relationships are being developed by HMG with the most import Sovereign Wealth and Pension Funds, regulators and policy departments.

UK TRADE & INVESTMENT

Infrastructure and Projects Authority

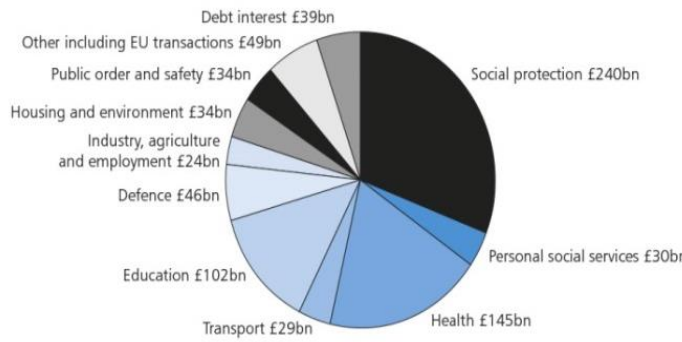
Distribution of FDI Projects in the UK

Source: UKTI/ Inward Investment Report 2015

The main target markets overseas are China, Japan, South Korea, the Gulf, Canada, Australia and the USA as well as key European countries such as Norway. Successes in 2014/15 included Japanese, Emirati and European investment into offshore wind; Canadian and Australian investment into transport and solar energy; and Chinese investment into oil and gas. In late 2015, UKTI secured £10.4bn in capital investment commitment from institutional and corporate investors in 30 major infrastructure projects.

The Regeneration Investment Organisation (RIO) and the Infrastructure and Projects Authority acts as broker, helping foreign investors identify, understand and fund opportunities, working across priority markets including China, Singapore, Malaysia, Qatar, the UAE and the Netherlands.

The UK Government will remain the main investor in the UK economy and Construction Industry. There is a good argument that the Major Construction Groups should be British owned. M&A will be the Corporate route to that.



Sources: Office for Budget Responsibility 2016-2017 estimates; Capital Consumption figures from Office for National Statistics

For many years, before and since the formation of EEC and EC Public Sector procurement rules, National Governments awarded the lion share of contracts to the largest National Contractors, often co-owned by the Public Sector and/or Major National Banks (viz. Dragados in Spain, Holzmann in Germany, etc.)

The message is- keeping ownership British may benefit many stakeholders. A new era of British industry was said to have been heralded on September 15th, as ministers effectively spelled an end to vital firms being sold to foreign buyers.

The Government had approved the building of the £18billion nuclear plant at Hinkley Point in Somerset, but promised to use fresh powers to block developer EDF from selling its share in future. And ministers vowed to retain a stake in other crucial companies and building projects to ensure that they also are not flogged to the highest bidder.

Future HMG Golden Shares maybe the order of the day in Infrastructure Companies, but although 85% of the supply-chain on building Hinkley may go to British Contracting Groups, there is no guarantee that they won't fall themselves into foreign hands.

GOVERNMENT SUPPORT PACKAGES

The Private Finance Initiative (PFI) has been a successful route to co-financing hitherto Government funded infrastructure, pioneered in the UK, and refined in the 1990s under the John Major Government. However there are now UK Innovations in government support for very large socially important projects.

The nature of government support available for infrastructure projects in the UK has seen significant development in recent years following the global financial crisis through initiatives such as the UK Guarantee Scheme. The contingent financial support provided to the Thames Tideway Tunnel Project continues this innovation and is an example of the diverse range of potential forms of government support that could be provided to encourage and facilitate private investment in infrastructure in the UK.

Infrastructure development in the UK was traditionally based on a model of public procurement and spending public funds. That changed in the 1980s, with more private sector involvement in public services. A decade later, the private finance initiative was developed, heralding a huge increase in private sector involvement in the construction, operation and financing of key public infrastructure in the UK. However, more recently, the global financial crisis has had an impact on that involvement, increasing the need for new private investment in key public assets but at the same time constraining the availability of capital. Further, there has been the much-heralded "flight to quality" seen in the investment market, and overall there has been a reshaping of the private sector's appetite for risk. During that period, we have also seen the collapse in the mono-line market, changes in the credit rating agencies business, and the withdrawal of a large number of commercial banks from long-term lending in infrastructure. Investment cases have become more sensitive to regulatory and political risk, changing requirements around accounting standards, and certainty of cash flow (sometimes because of a lack of historical information about the performance of the infrastructure asset). Against this background of a changing debt and equity market, we have seen the development of new forms of government support available to the private sector for infrastructure projects.

Government Support Package Example
Thames Tideway Tunnel Project

The Thames Tideway Tunnel Project will be 25 kilometres long, pass through 12 London boroughs, up to 7.2 metres in diameter and run up to 65 metres below the River Thames. On 24 August 2015, a project licence was awarded by Ofwat to Bazalgette Tunnel Limited as the "infrastructure provider" to design, build, finance, operate and maintain the Project. The Project is important in supporting economic growth in London and in significantly improving the River Thames and the surrounding environment by protecting the river from further sewage discharges. It will be funded by the customers of Thames Water and privately financed by a consortium of investors making up Bazalgette Tunnel Limited.

However, the Government acknowledged that there were some risks in the Project that were unlikely to be borne by the private sector at a viable cost. On this basis, the Secretary of State for Environment, Food and Rural Affairs entered into a government support package (GSP) with Bazalgette Tunnel Limited to provide contingent financial support for extraordinary project risks where this offered best value for money for customers and taxpayers. The GSP provides support in relation to a range of risks across six key agreements designed to support the Project should exceptional, low-probability but high-impact risks occur, which the private sector could not cover at an acceptable cost, or at all:

- *Insurance risks*
- *Disruption in the debt market*
- *Cost overruns*
- *Public sector shareholders*
- *Insolvency*
- *Termination*

The package creates a risk "envelope" for private sector debt and equity providers, which optimises risk pricing, thereby improving value for money for taxpayers and customers.

The government support package consists of six core contract documents designed to support the Tunnel project should exceptional, highly unlikely risks happen, which the private sector could not cover at an acceptable cost, or at all. The six core contract documents are:

- supplemental compensation agreement
- market disruption facility
- contingent equity support agreement
- discontinuation agreement
- special administration offer agreement
- shareholders direct agreement

Thames Tideway is currently letting contracts, and it is interesting how many European Major Companies are involved in the bidding process.

Source: Thames Tideway

Management by Leadership

"Agreement by committee."

CHAPTER 8

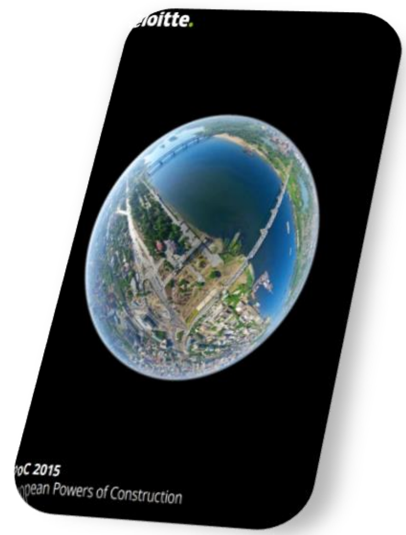
THE POWER HOUSES OF EUROPEAN CONSTRUCTION

DELOITTE REPORT OVERVIEW

Deloitte's European Powers of Construction 2015 examines the strategies and performance of the most representative listed European construction groups in terms of revenue, market capitalisation, internationalisation, diversification, indebtedness and other financial ratios.

DELOITTE REPORT CONTENTS

- INTRODUCTION
- RANKING OF LISTED EUROPEAN CONSTRUCTION COMPANIES
- TOP 50 EPOC – RANKING BY SALES
- TOP 20 EPOC – RANKING BY MARKET CAPITALISATION
- OUTLOOK FOR THE CONSTRUCTION INDUSTRY IN THE EU
- TOP 20 EPOC STRATEGIES: INTERNATIONALISATION AND DIVERSIFICATION
- EPOC 2015 FINANCIAL PERFORMANCE
- DIVERSIFICATION OF THE EPOC 2015
- FINANCING OF EPOC 2015
- INTERNATIONALISATION: BUSINESS OPPORTUNITIES
- PERFORMANCE OF NON-EUROPEAN CONSTRUCTION COMPANIES
- TOP 20 EPOC – COMPANY PROFILES



(Source: Deloitte)

THE STRATEGIC MESSAGES FOR UK COMPANIES

The main Strategic decisions and messages are given by comparing how much European Groups have diversified internationally, and into services outside construction compared with the UK Companies. British Companies do not feature highly. Balfour Beatty has the highest percentage of international work due to its US businesses, and Carillion has the highest proportion of diversification outside contracting among the Companies compared due to its Support Services Businesses.

CHAPTER CONTENTS

STRUCTURE OF EU CONSTRUCTION SECTOR

INTERNATIONALISATION & DIVERSIFICATION

- DOMESTIC CONSTRUCTION GROUPS
- INTERNATIONAL CONSTRUCTION GROUPS
- DOMESTIC CONGLOMERATES
- INTERNATIONAL CONGLOMERATES
- TRENDS IN INTERNATIONALISATION AND DIVERSIFICATION 2010-2015
- FINANCIAL PERFORMANCE
- ARES OF DIVERSIFICATION
- THE STRATEGIC MESSAGES FOR UK COMPANIES

CHAPTER 8

THE POWER HOUSES OF EUROPEAN CONSTRUCTION

Source: Deloitte

All comments below are derived from the Author's Review of the comprehensive Research undertaken by Infrastructure Department, Deloitte Madrid [Plaza Pablo Ruiz Picasso, S/N Torre Picasso 28020 Madrid, Spain Phone + 34 91 514 50 00 Fax + 34 91 514 51 80] dated June 2016.

STRUCTURE OF EU CONSTRUCTION SECTOR

Total construction investment in the EU amounted to EUR 1,434 billion, 5% higher than in 2014. Since 2013 the three largest construction markets in Europe have been Germany, France and the United Kingdom. The Top 5, which also includes Italy and Spain, represented 72% of total construction investment in the European Union in 2015.

Rankings of Groups by Turnover are familiar, but the *Deloitte* Analysis also includes a Ranking by Market Capitalisation. This gives a better idea of the Value of Groups, and their distribution in the EU.

Rankings

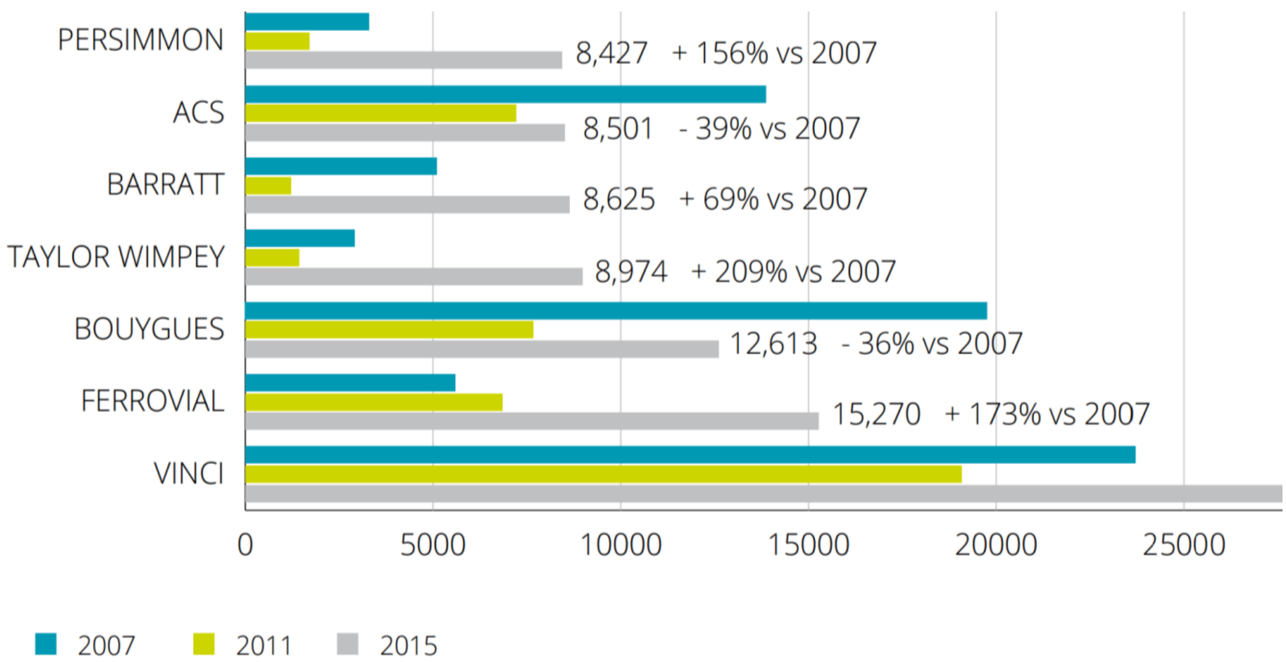
Country	Number of companies	Sales 2015 (€ m)	Sum of Sales 2014	Variation 2015 vs 2014 (a)	Market Capitalisation 2015 (€ m)	Market Capitalisation 2014 (€ m)	Variation 2015 vs 2014
FRANCE	3	85,006	85,789	(1%)	52,907	40,808	30%
SPAIN	6	64,964	63,147	3%	32,636	30,721	6%
UNITED KINGDOM	13	55,434	45,694	21%	41,356	29,871	38%
SWEDEN	4	29,278	28,360	3%	14,567	14,125	3%
AUSTRIA	2	16,263	15,485	5%	3,232	2,730	18%
NETHERLANDS	4	12,558	12,484	1%	2,081	1,237	68%
ITALY	3	8,936	8,097	10%	2,834	2,438	16%
TURKEY	2	5,390	5,921	(9%)	6,176	7,346	(16%)
PORTUGAL	2	3,926	4,048	(3%)	589	851	(31%)
FINLAND	2	3,611	3,823	(6%)	977	762	28%
BELGIUM	1	3,239	3,511	(8%)	2,762	2,152	28%
GREECE	3	3,173	3,087	3%	776	377	106%
SWITZERLAND	1	3,079	2,404	28%	861	887	(3%)
NORWAY	1	2,707	2,876	(6%)	1,508	1,091	38%
DENMARK	2	2,252	2,079	8%	843	670	26%
GERMANY	1	1,656	1,560	6%	298	229	30%
Total	**50**	**301,472**	**288,365**	**5%**	**164,404**	**136,294**	**21%**

Source: Bloomberg. Deloitte analysis

Rank	Company	COUNTRY	Market Capitalisation (€ m) 2015	Market Capitalisation (€ m) 2014	Variation 2015 vs 2014	Ranking change on 2014
1	VINCI SA	FRANCE	34,801	26,851	30%	-
2	FERROVIAL SA	SPAIN	15,270	12,029	27%	-
3	BOUYGUES SA	FRANCE	12,613	10,070	25%	-
4	TAYLOR WIMPEY PLC	UNITED KINGDOM	8,974	5,756	56%	↑ 5
5	BARRATT DEVELOPMENTS PLC	UNITED KINGDOM	8,625	5,998	44%	↑ 3
6	ACTIV. DE CONSTR. Y SERV. SA (ACS)	SPAIN	8,501	9,116	(7%)	↓ 2
7	PERSIMMON PLC	UNITED KINGDOM	8,427	6,198	36%	-
8	SKANSKA AB	SWEDEN	7,373	7,505	(2%)	↓ 3
9	ENKA INSAAT VE SANAYI AS	TURKEY	5,704	6,712	(15%)	↓ 3
10	EIFFAGE SA	FRANCE	5,493	3,886	41%	-
11	ACCIONA SA	SPAIN	4,528	3,218	41%	-
12	BELLWAY PLC	UNITED KINGDOM	4,195	3,043	38%	↑ 1
13	NCC AB	SWEDEN	3,088	2,845	9%	↑ 1
14	CFE	BELGIUM	2,762	2,152	28%	↑ 1
15	BALFOUR BEATTY PLC	UNITED KINGDOM	2,528	1,877	35%	↑ 4
16	STRABAG SE	AUSTRIA	2,419	2,072	17%	↑ 1
17	PEAB AB	SWEDEN	2,082	1,732	20%	↑ 5
18	JM AB	SWEDEN	2,024	2,043	(1%)	-
19	GALLIFORD TRY PLC	UNITED KINGDOM	2,015	1,361	48%	↑ 6
20	SALINI IMPREGILO SPA	ITALY	1,980	1,501	32%	↑ 3

Source: Bloomberg

Market Capitalisation 2015 v 2007



The greatest strides in increasing Market Capitalisation dominance have been made by Vinci, Ferrovial, Bouygues and Taylor Wimpey, the latter which increased its value by more than 200%. Taylor Wimpey also ranks most favourably, compared with its European peers based on its low gearing and low debt levels, indicating it has great scope to finance growth.

INTERNATIONALISATION & DIVERSIFICATION

Taking into account the different levels of internationalisation and diversification achieved by the most significant European Powers of Construction (EPCs) in terms of total sales, four main categories were identified.

Domestic construction groups

This category is composed of companies that are mainly focused on construction activities carried out in their domestic markets. This division is currently represented by Bouygues, Taylor Wimpey and Barratt Developments. Bouygues, 3rd in the ranking by sales volume and market capitalisation, has a strong presence in France.

Although its international activity is significant (EUR12,370 million in sales abroad), it still obtains over 60% of its revenue from its domestic market. In addition, over the last few years Bouygues has focused its portfolio on construction activities, which accounted for over 80% of total sales in 2015.

Barratt Developments and Taylor Wimpey's diversification and internationalisation levels are both below 5% since their total revenues are generated mainly through residential building construction based in the UK.

International construction groups

This category is represented by construction groups with a relatively low level of diversification that obtain more than 40% of their total revenue beyond
their domestic markets.

Vinci's international expansion gained momentum during the year and, as a result, the group generated more than 40% of its revenue outside France for the first time ever in 2015. ACS and OHL recorded similar levels of diversification and internationalisation. These companies are the most diversified groups within this category, with non-construction sales representing over 20% of total revenue. Skanska's international activities are mainly focused in America, and represented almost 80% of its total income in 2015. Its performance was particularly strong in Finland and Poland, while the US was negatively affected by cost increases in certain projects. Internationalisation and diversification rates did not significantly change in the year.

Balfour Beatty obtained around 55% of total sales abroad. Its non-construction activities, such as real estate or industrial and services activities, are not representative enough for Balfour Beatty to fall within the "International conglomerate" category.

Domestic conglomerates

The "Domestic conglomerates" category is represented by companies that have diversified their business portfolio to non-construction activities but conduct most of their business in their respective local markets. Carillion, whose internationalisation slightly reduced the diversification of its portfolio from 61% in 2014 to 59% in 2015. Non-construction activities are represented by the Support Services Division which maintains and operates buildings and infrastructures, notably for large property estates and for transport and utility networks. Unlike Carillion, Interserve increased its international presence in 2015 due to its positive performance in markets such as Dubai, Oman and Qatar. This trend is expected to continue in the coming years as a result of the significance of its international backlog.
Eiffage, characterised by a growth strategy focused on local markets, continued to develop its energy and concession businesses. Nevertheless, as a result of the strong performance of the public works division (construction), its diversification rate decreased to 43% of total sales. Activities in local markets accounted for 82% of the Group's revenue.

Lastly, the UK group Kier obtained almost 49% of total sales from non-construction activities represented by its services division, which includes capabilities in highway maintenance, utilities and environmental services.

International conglomerates

The "International conglomerates" category, represented by three companies, is composed of groups with highly diversified portfolios and a strong international presence. In 2015 only three Spanish companies (Acciona, FCC and Ferrovial) were included in this group. The growth achieved by these players in the international marketplace offset the contraction noted in their local market, which was severely affected by the economic recession. Ferrovial, the Spanish group ranked 8th in terms of total sales and 2nd in terms of market value, obtained 56% of total sales from non-construction activities and 72% from international operations. In May 2016, the Group strengthened the position of its services division with the acquisition of Broadspectrum, an Australian listed company with EUR 2,641 million in sales in 2015 that will increase its internationalisation and diversification levels in the coming year. Acciona obtained around 50% of 2015 total sales outside Spain, mainly in Europe and in other OECD countries. It is worth noting that Acciona is one of the most diversified companies within EPC grouping, with strong energy and logistic transport services divisions In 2015 FCC recorded the highest level of diversification in the Top 20 EPC in relative terms. However, the group's international activities represented 47% of total sales, which is slightly lower than the average.

Trends in internationalisation and diversification 2010-2015

An analysis of changes in the degree of internationalisation and diversification since 2010 shows that most of the Top 20 EPC have remained in their current categories of diversification. Notably, in 2015 international sales and non-construction revenue represented 52% and 24.3%, respectively, of the total income recorded by the Top 20 EPC. Internationalisation levels were almost 9 percentage points higher than in 2010, while diversification was approximately 5% lower.

Among the French groups, since 2010 Vinci has reinforced its international presence in areas such as Europe (especially Germany and the United Kingdom), America, Asia and the Middle East. On the other hand, the importance of Bouygues' non-construction business has dropped by 6 percentage points as a result of the growth of its construction activities and a slight contraction of the Media and Telecom businesses.

With regard to the Spanish groups, ACS's internationalisation rate increased by an impressive 51%, while diversification decreased by 38% after June 2011 as a result of the integration of Hochtief. Ferrovial's international presence strengthened
in markets such as the United States and United Kingdom. Also, Ferrovial has carried out remarkable development of its services division in recent years.

On the other hand, since 2011 Ferrovial does not consolidate Heathrow Airports Holdings that is now an equity subsidiary. Since 2010 Acciona has strengthened its internationalisation strategy as well as its non-construction business, mainly due to the performance of the energy segment in international
markets. The evolution noted for FCC is mainly a result of the deconsolidation of its Austrian construction subsidiary Alpine in 2013. Lastly, the contraction of the local market, together with the divestments of its Brazilian and Chilean concessions in 2012, impacted on the internationalisation and diversification levels attained by OHL.

Among the UK groups, the main deviations were identified at Balfour Beatty, Interserve and Kier. As a result of the sale in 2014 of Parsons Brinckerhoff (professional services business), the importance of non-construction revenues for Balfour Beatty in relative terms decreased by 12%. On the other hand, Kier increased its diversification by 16 percentage points as a result of the positive performance of the Group's services division. With regard to Interserve, it should be pointed out that sales in the UK rose by more than 50% since 2010, while the support services division has doubled its sales in recent years. Other significant variations relate to BAM. BAM's international business has been consolidated as a result of the growth achieved in countries such as the United Kingdom.

Trends in Internationalisation & Diversification

Company	2015-2010	
	Internationalization % variation	Diversification % variation
VINCI	5%	(0%)
ACS	51%	(38%)
BOUYGUES	7%	(6%)
SKANSKA	(3%)	1%
EIFFAGE	3%	(2%)
STRABAG	(0%)	0%
BALFOUR BEATTY	2%	(12%)
FERROVIAL	3%	(7%)
BAM	11%	(2%)
NCC AB	2%	0%
ACCIONA SA	20%	20%
FCC	1%	24%
CARRILLION	2%	12%
INTERSERVE	10%	4%
BARRATT	-	(0%)
PEAB AB	3%	3%
SALINI IMPREGLIO	7%	(10%)
KIER GROUP	4%	16%
OHL	13%	(12%)
TAYLOR WIMPEY	(31%)	0%
AVERAGE	**9%**	**(5%)**

Financial Performance

	EBIT / Sales								
	Construction activities			Other activities			Total		
Company	2015	2014	2013	2015	2014	2013	2015	2014	2013
TAYLOR WIMPEY PLC	20.1%	18.5%	15.5%	22.0%	17.8%	13.5%	20.1%	18.5%	15.5%
BARRATT DEVELOPMENTS PLC	15.4%	13.0%	9.7%	10.7%	(5.9%)	-	15.4%	13.0%	9.7%
FERROVIAL SA	8.6%	7.9%	8.9%	9.8%	8.9%	11.4%	9.3%	8.4%	10.1%
SALINI IMPREGILO SPA	5.9%	6.3%	7.3%	-	-	-	5.8%	6.2%	6.8%
NCC AB	4.9%	4.6%	4.7%	-	-	(21.2%)	4.9%	4.6%	4.6%
AVERAGE EPOC	**3.4%**	**3.1%**	**3.2%**	**13.0%**	**11.6%**	**8.9%**	**5.8%**	**5.1%**	**4.5%**
VINCI SA	3.4%	3.5%	4.1%	44.7%	43.1%	39.3%	9.8%	9.4%	9.1%
CARILLION PLC	3.3%	3.5%	1.8%	5.4%	5.8%	4.9%	4.6%	4.9%	3.7%
BOUYGUES SA	3.2%	3.2%	3.9%	1.7%	0.7%	4.4%	2.9%	2.7%	4.0%
ACTIV. DE CONSTR. Y SERV. SA (ACS)	3.1%	2.7%	2.4%	6.7%	9.9%	10.7%	4.1%	4.6%	4.3%
SKANSKA AB	2.8%	3.5%	3.0%	19.5%	6.2%	19.2%	4.1%	3.8%	4.1%
EIFFAGE SA	2.6%	3.3%	3.1%	20.2%	17.6%	16.9%	10.2%	9.7%	9.2%
STRABAG SE	2.6%	2.3%	2.1%	-	-	-	2.6%	2.3%	2.1%
PEAB AB	2.1%	4.4%	(0.5%)	3.3%	2.4%	12.1%	2.3%	4.0%	1.4%
KIER GROUP PLC	1.9%	1.6%	1.7%	1.7%	0.7%	4.1%	1.8%	1.2%	2.5%
ACCIONA SA	1.9%	1.4%	0.2%	13.4%	13.8%	(45.8%)	9.6%	8.8%	(26.8%)
INTERSERVE PLC	1.0%	1.3%	2.2%	2.6%	1.9%	2.2%	2.0%	1.7%	2.2%
KONINKLIJKE BAM GROEP NV	0.3%	(0.9%)	(0.1%)	(14.3%)	(12.9%)	12.8%	(0.1%)	(1.4%)	0.2%
FOMENTO DE CONSTR. Y CONTRATAS SA (FCC)	(1.0%)	1.3%	(9.6%)	7.7%	(8.8%)	(1.3%)	5.0%	(5.5%)	(4.5%)
OBRASCON HUARTE LAIN SA (OHL)	(1.7%)	(5.7%)	5.8%	66.0%	82.6%	86.3%	15.7%	16.5%	28.0%
BALFOUR BEATTY PLC	(4.4%)	(5.9%)	(0.5%)	4.8%	5.0%	2.3%	(2.2%)	(3.2%)	0.5%

Source: Deloitte

Ares of Diversification

Company	Construction	Real Estate Development	Concessions	Industrial & Services	Environment & Water	Energy	Telecom	Other activities
VINCI SA	● (green)	● (yellow)	● (green)	● (green)	● (red)	● (green)	● (red)	● (red)
ACTIV. DE CONSTR. Y SERV. SA (ACS)	● (green)	● (green)	● (yellow)	● (green)	● (green)	● (blue)	● (blue)	● (yellow)
BOUYGUES SA	● (green)	● (green)	● (yellow)	● (yellow)	● (red)	● (blue)	● (green)	● (green)
SKANSKA AB	● (green)	● (green)	● (red)	● (green)	● (red)	● (green)	● (red)	● (red)
EIFFAGE SA	● (green)	● (yellow)	● (green)	● (yellow)	● (red)	● (green)	● (red)	● (red)
STRABAG SE	● (green)	● (yellow)	● (yellow)	● (yellow)	● (red)	● (yellow)	● (red)	● (blue)
BALFOUR BEATTY PLC	● (green)	● (red)	● (blue)	● (green)	● (yellow)	● (yellow)	● (yellow)	● (yellow)
FERROVIAL SA	● (green)	● (yellow)	● (blue)	● (green)	● (yellow)	● (red)	● (red)	● (yellow)
KONINKLIJKE BAM GROEP NV	● (green)	● (yellow)	● (blue)	● (yellow)	● (red)	● (yellow)	● (red)	● (red)
NCC AB	● (green)	● (green)	● (red)	● (green)	● (red)	● (red)	● (red)	● (red)
ACCIONA SA	● (green)	● (yellow)	● (yellow)	● (yellow)	● (yellow)	● (green)	● (red)	● (yellow)
FOMENTO DE CONSTR. Y CONTRATAS SA (FCC)	● (green)	● (blue)	● (blue)	● (green)	● (green)	● (yellow)	● (red)	● (green)
CARILLION PLC	● (green)	● (yellow)	● (yellow)	● (green)	● (yellow)	● (red)	● (red)	● (red)
INTERSERVE PLC	● (green)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)
BARRATT DEVELOPMENTS	● (green)	● (yellow)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)
PEAB AB	● (green)	● (yellow)	● (red)	● (yellow)	● (red)	● (green)	● (red)	● (yellow)
SALINI IMPREGILO SPA	● (green)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)
KIER GROUP	● (green)	● (yellow)	● (red)	● (green)	● (red)	● (red)	● (red)	● (red)
OBRASCON HUARTE LAIN SA (OHL)	● (green)	● (yellow)	● (yellow)	● (yellow)	● (red)	● (red)	● (red)	● (yellow)
TAYLOR WIMPEY	● (green)	● (green)	● (red)	● (red)	● (red)	● (red)	● (red)	● (red)

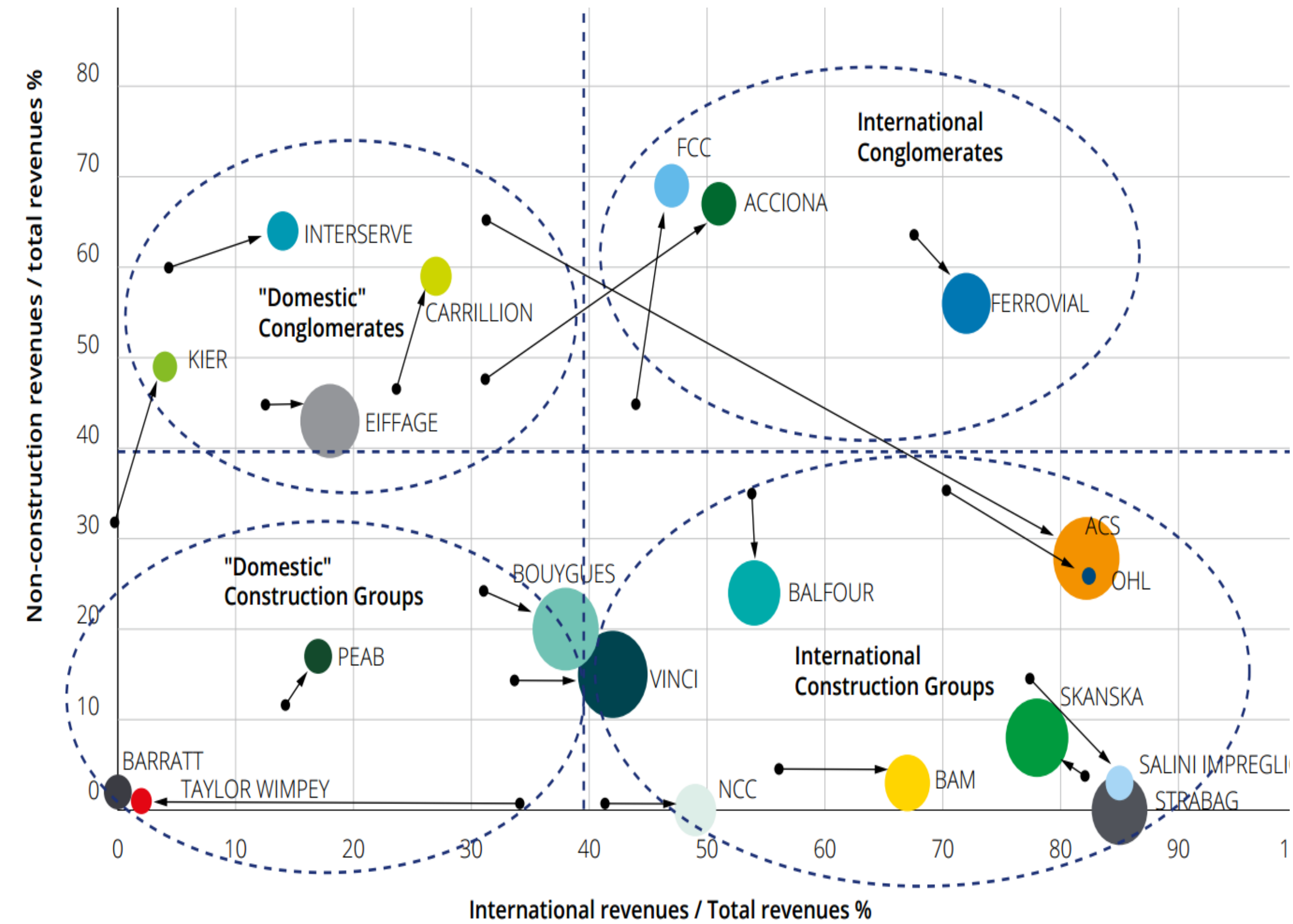
● (green) Sales over € 1,000 million ● (yellow) Sales below € 1,000 million ● (blue) Relevant presence through equity investments ● (red) No presence or residual presence

Source: Deloitte analysis

The Strategic Messages for UK Companies

The main Strategic decisions and messages are given by comparing how much European Groups have diversified internationally, and into services outside construction compared with the UK Companies. British Companies do not feature highly. Balfour Beatty has the highest percentage of international work due to its US businesses, and Carillion has the highest proportion of diversification outside contracting among the Companies compared due to its Support Services Businesses.

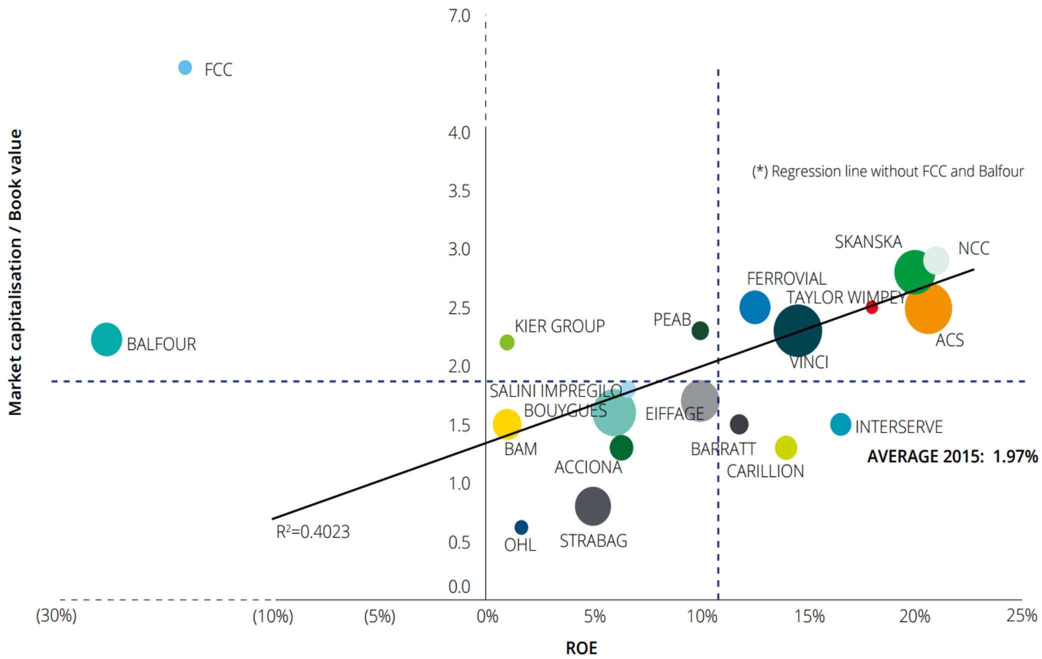
Trends in Areas of Diversification (2010-2015)



Since selling its US business Taylor Wimpey have very little overseas business, but boasts high margins. This is normally explained by the high level of capital employed compared with contractors; but Return on Equity figures are impressive at the Company too.

Return on Equity (ROE) appears to be one ratio of Deloitte's Analysis worthy of specific comparison. Average ROE in 2015 for the TOP 20 European EPC companies increase 4% since 2012 to 10.4% There seems to be a direct correlation between ROE and the market capitalisation recorded. Certain companies such as NCC, ACS, Skanska, and Taylor Wimpey recorded above-average ROE and market capitalisation / book value ratios.

ROE



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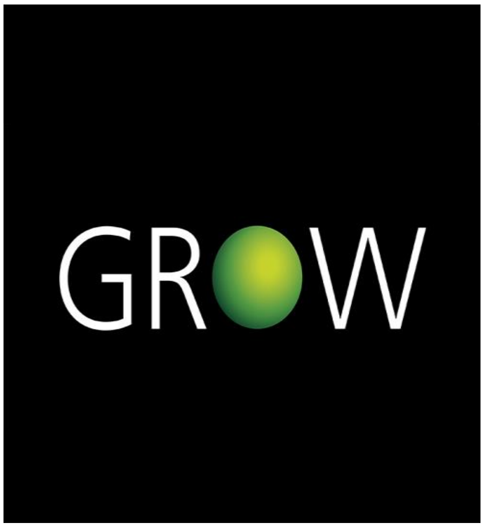


CHAPTER 9

CONCLUSIONS & RECOMMENDATIONS

OVERALL CONCLUSION

Overall Conclusions concur with the *Ernst & Young* Report on Construction Consolidation issued in 2015. "The current economic fundamentals and committed major project pipeline, including significant opportunities in areas such as infrastructure and house building, should provide a backdrop in which the UK construction industry thrives. However, Industry structure and company-specific challenges remain a barrier to a more operationally and financially robust construction sector. The sector remains handicapped by risk across the contract life cycle weak portfolio management, poor cash management, margin pressure and flawed structures and procedures."

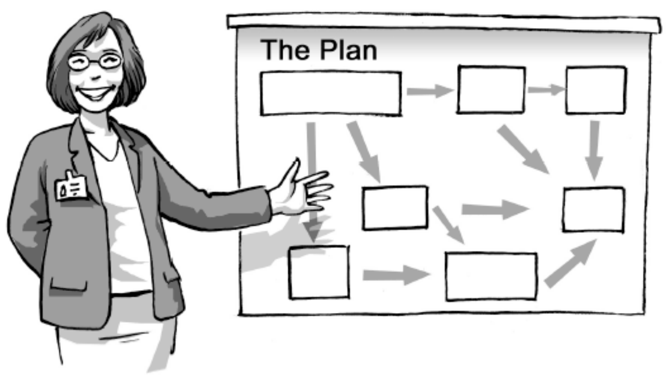
The Industry requires significant Consolidation, if existing UK Construction Groups are to survive and thrive in their independence, without succumbing to threats of enforced change driven by sources of external capital, from continental European or other players. European Markets and their Major Indigenous Groups have Consolidated and Diversified through M&A over the last 20 years, and enjoy higher margins, market capitalisations, volumes, and returns on capital employed than their UK counterparts.

"The Research in this Report, adequately demonstrates the front-line role M&A has taken in the formation of the leading UK Construction Groups in the past. Industry leaders now need to assess the right Merger and Acquisition decisions for them to become strengthened Groups able to work efficiently on ever larger projects, and seek Re-Capitalisation and funding for investment into higher margin Non-Construction Activities, to compliment and strengthen their Balance Sheets ."

CONTENTS

- CONSENSUS VIEW ON INDUSTRY OUTLOOK
- INDUSTRY STRUCTURE AND FUTURE CONSOLIDATION
- HOW CAN THE CONSOLIDATION DEBATE TURN TO DEALS
- THE NEED FOR LEADERSHIP
- ROUTE TO OUTSTANDING LEADERSHIP IN UK CONSTRUCTION
- TOP 100 ICONIC CEOs IN EUROPE OF RECENT PAST
- FUTURE DIVERSIFICATION UNDER NEW LEADERSHIP
- M&A STRATEGY & STAKEHOLDERS

The Plan



CHAPTER 9

CONCLUSIONS & RECOMMENDATIONS

- The UK Market Outlook is good, and most key indicators are up.

- Britain remains a leading economy in Europe despite Brexit, and London a leading Capital City.

- But European and International Competition are fierce, and Change is in the air. The Industry needs to Consolidate. Once Consolidation has taken place, the newly formed Mega Groups should look to Major Diversification away from Contracting.

CONSENSUS VIEW ON INDUSTRY OUTLOOK

It's been a tough decade for the industry due to the prolonged impacts of the financial crisis so the growth predicted in this Report, and the sources from which it's conclusions about the economy and the industry are derived, is a welcome relief.

In the past three years, an increase in housebuilding has driven growth in the sector, and this Report advises Construction Groups not to rule out having complimentary Private & Public Housing Development arms as part of their forward portfolio strategy. But for the first time in five years, infrastructure projects will be the biggest contributor, with work forecast to rise by 60 per cent between 2017 and the end of the decade.

Major rail projects include the £563m upgrade of Bank station in central London and the electrification of cross-country rail routes including the Great Western Railway and the north-west network. Work on the HS2 high-speed railway line, is also included in the forecasts as is the new £4.3bn super-sewer that will run for 16 miles under the Thames river in London.

And the new nuclear power station at Hinkley Point C, which is due to supply 7 per cent of Britain's energy when it is completed in 2025, has received co-funding from China General Nuclear.

Road construction, which was cut sharply in 2011, is also expected to benefit from the government's £15.2bn Roads Investment Strategy run by Highways England.

The start of work on projects, that have sometimes been years in the planning, comes as a boost to the sector, which has been vulnerable to stop-start spending decisions since 2010.

The government's National Infrastructure Plan, announced in 2011, listed 500 building projects and aimed to drag the country out of recession. But the Treasury's goal of raising £20bn from pension funds to invest in infrastructure has yet to be achieved.

INDUSTRY STRUCTURE AND FUTURE CONSOLIDATION

Market conditions look well-suited to consolidation. The Top 5 are best placed to make strategic merger moves to start the consolidation process in the UK.

UK construction will become a sellers' market. When prices are strong, demand is rising and skills are in short supply it will be a favourable backdrop to consolidation. Questions remain around whether entities have the financial capacity, capability and desire to undertake a major transaction in the short term. A further barrier may be the impact that consolidation will have on government framework agreements. However, balance sheets have largely been restored, and investors have shown loyalty to the sector. Provided management teams are prepared to entertain transactions, deals will be done.

Throughout the report, the Author has concurred with the findings of *Ernst & Young* Report on "UK Construction Consolidation on the way." It won't take until 2025 to achieve this. It is hoped that the current Top 5 Construction Groups in the UK industry today, will retain their leading positions through mergers and growth, (unlike the Top 10 from 1995 to 2005 [see Chapter 4]), rather than succumb to foreign predators, or investor influence from outside the UK Industry.

With market conditions looking well-suited to support the scenario of consolidation, the likely and potential acquirers and sellers, Potential Investors & Interested Third Parties are discussed in Chapter7 of the Report.

It is concluded and recommended that initial Major Mergers be encouraged and duly considered by, and between, the current top 5 companies. Scenarios for possible M&A are discussed, but not in depth, in Chapter 5; and fuller individual Company Analysis is included in Chapter 3. Apart from Carillion and Balfour Beatty, Interserve, Kier, Laing O'Rourke, Costain, Morgan Sindall, Galliford Try and ISG are all cited as potential M&A candidates; as well as foreign buyers including Vinci, Bouygues, Ferovial, Skanska and BAM.

Carillion's opportunistic £2.1bn bid for Balfour Beatty in 2014 was one of the biggest lost opportunities and, while unsuccessful at that time, still has potential to create a construction giant of a scale the UK market has never seen before, uniting the two largest firms in domestic construction. The view held by many is that a fresh merger approach, between Carillion and Balfour Beatty is inevitable.

Likely sellers, or companies who may become the subject of acquisitions are speculated as Costain, WYG, Miller Homes and ISG.

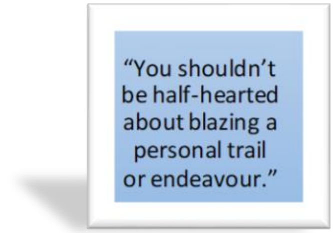
The Housing Sector is looking up too, and Taylor Wimpey, Miller homes and Countryside homes may be good buys. Galliford Try or Kier may be interested in picking up one of these latter two firms that have been groomed for flotation.

HOW CAN THE CONSOLIDATION DEBATE TURN TO DEALS

What is required to achieve the necessary consolidation in the fragmented UK Construction Industry with its Top 5 Companies not ranking within the World's Top 20, nor European's Top 10 in 2016, and further decline expected in years to come? One simple conclusion- "Leadership". This Report hails this conclusion and recommendations for change that stem from it.

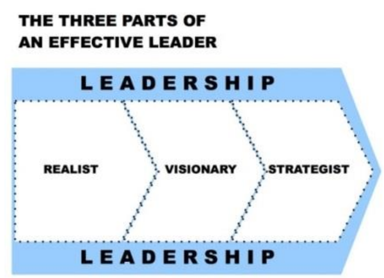
In an industry crying out for consolidation, the new-found leadership will need to seek out the right M&A structures and deals to form a few (maybe no more than 5) Major Groups, which will lead in their wide market sectors; have scale and resource to take on Mega Projects; and implement long-term financing and achievable debt covenants, supported by robust cash management despite unpredictable economic cycles.

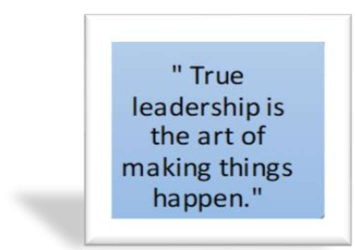
These Major Groups will each need "*Outstanding Executive Leadership"*; leaders who have the gravitas, personal qualities and vision to make things happen.



Abai Schulze, Ethiopian Entrepreneur

Source: Aprille International Enterprises, LC 2013





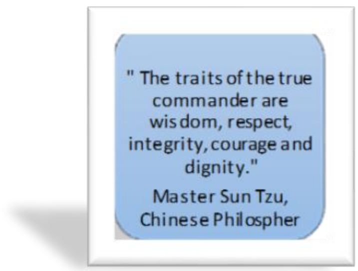






THE NEED FOR LEADERSHIP

ROUTE TO OUTSTANDING LEADERSHIP IN UK CONSTRUCTION



The key findings and conclusions of the research in this lReport, are about the need for "Change". Problems in the industry call for the need for change in its structure and population.

The problems, identified by *Ernst & Young* in their research, extend further and are a combination of both industry and company-level issues. A change in industry structure and company-specific challenges remain a barrier to a more operationally and financially robust construction sector. The sector remains handicapped by risk across the contract life cycle, weak portfolio management, poor cash management, margin pressure and flawed structures and procedures.

Ultimately, if the industry can find the leadership it needs to transform current performance, a resultant construction sector that is both financially and operationally stronger will be of benefit to all.

Source: CAPCO.com

1. HARNESSING EXECUTIVE ASPIRATIONS & NUTURING ABILITY

Source: McKensey & Co

"There is no point selecting the right Merger Partner, enacting a well- managed and financially robust M&A transaction, only to falter by Baghdad style poor post-merger integration planning. Integrating companies is arguably the most important challenge involving the top of an organization following a merger—appointing the right top team, structuring it appropriately, defining its agenda, and building the trust that enables its members to work well together. Executives who fail to overcome these challenges are responsible for some spectacular failed mergers."

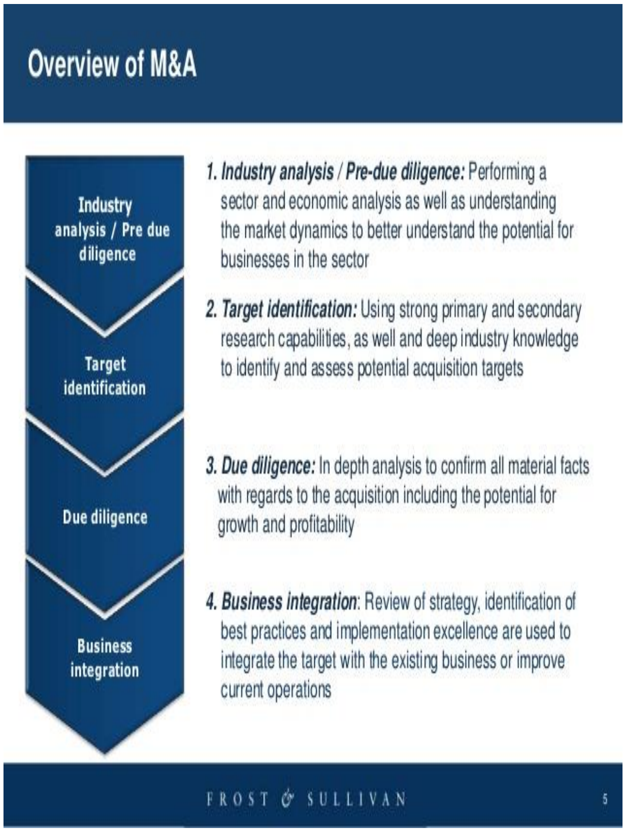
"Successful mergers start at the top, and clients' interests, those of employees, and ultimately shareholders, should all become before self."

Human Resources of the combined group are the key assets to the new enterprise. The team must become the new company in the full sense. Its messages, processes, and targets must deeply incorporate the aspirations of the new company in a way that is visible to managers, employees, and even outside observers. As the top team goes on to integrate the company down the line, it in effect re-creates itself. The company is not just rolling out messages, processes, and a set of targets; it is rolling out itself. It's all about people. When Carillion de-merged from Tarmac, the CEO and the Board called upon the employees to suggest and vote for a new name for the enterprise. Such inclusion is a good example of team forming during a period of uncertainty for employees.

2. CHOOSING THE RIGHT M&A TARGETS/DEALS

Acquisitions are all about "Process", and the most acquisitive companies have a very dedicated central team to work to a strict discipline of process. Most Construction companies don't have this level of in-house expertise, and a mega merger would be a "one-off", requiring a full array of the best external Corporate Advisers to help research, and select and assess the target, and thereafter complete the M&A transaction successfully.

The Acquisition Process Chart



Source: Frost & Sullivan

Source: London Business School

The Merger Process, on a large scale, maybe a completely new experience for the incumbent management of Merger Partners. Advice, training and preparation are available when time permits. The Top Business School in Europe, *London Business School*, provides regular short courses for senior executives, covering all aspects of M&A. The programme teaches an end-to-end understanding of the M&A process and the ability to judge whether a merger or acquisition fits with the company's corporate strategy. As a result, executives are more likely to identify the most lucrative M&A opportunities, select the best partners and get the maximum reward from a deal. (Refer to Appendix VIII, LBS-Mergers & Acquisitions).

3. CHOOSING THE RIGHT M&A ADVISORY TEAM

This is a crucial element of a successful M&A process, but not the subject of this Report.

A list of Corporate Advisers, with relevant experience in large Construction Sector M&A transactions is provided in Appendix VI.

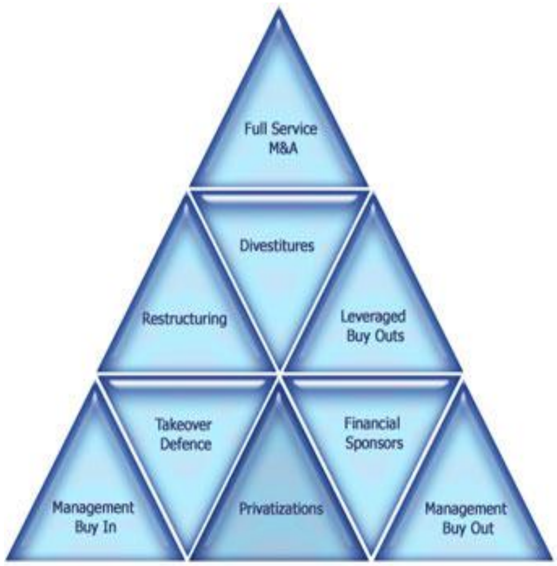
Each company has its preferred Advisers in terms of Corporate Strategy, Merchant Banks, Corporate Finance, Lawyers, Actuaries, QS Practices, HR, PR, etc. There may be conflicts between the Merging Parties in terms of co-selection of advisers where appropriate, but this will not be the only area for consensus decision making in finding the right way forward.

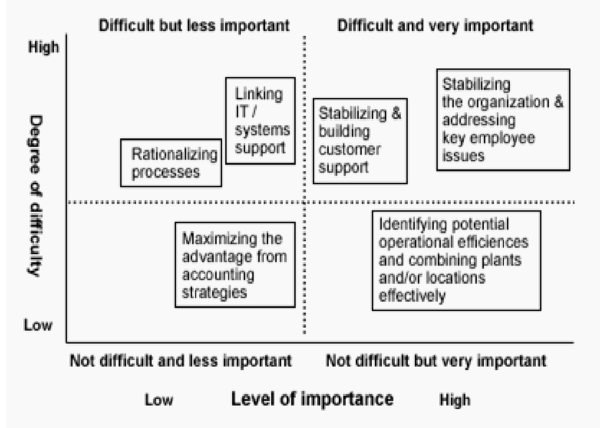
4. HAVING A WELL THOUGHT THROUGH INTEGRATION PLAN

There are many Academic studies available on the methods, and virtues of having a well thought through integration plan. It will be a key task of the M&A Process Leader(s) to develop such a Plan, well before the Merger transaction is completed.

A Major M&A deal, is at the top of the food-chain for Corporate Advisers (see below), and there are no short-cuts. Failed Merger attempts can cost companies millions of pounds in lost fees, as was the case in both the failed Acquisition bids by Costain for May Guerney in 2014, and the failed Acquisition of Balfour Beatty, by Carillion of the same year.

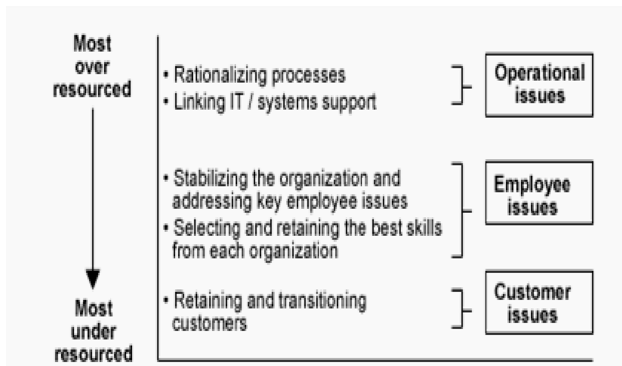
THE M&A Value-Added Food Chain





Resourcing of Merger Activities

Sources: Mercer Consulting Group

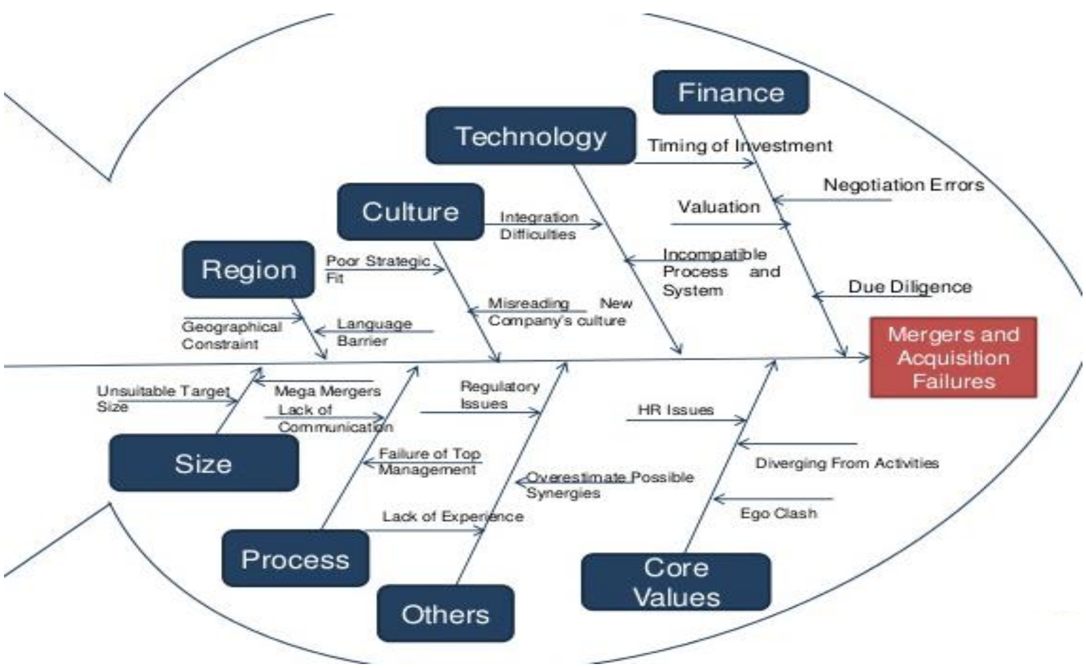


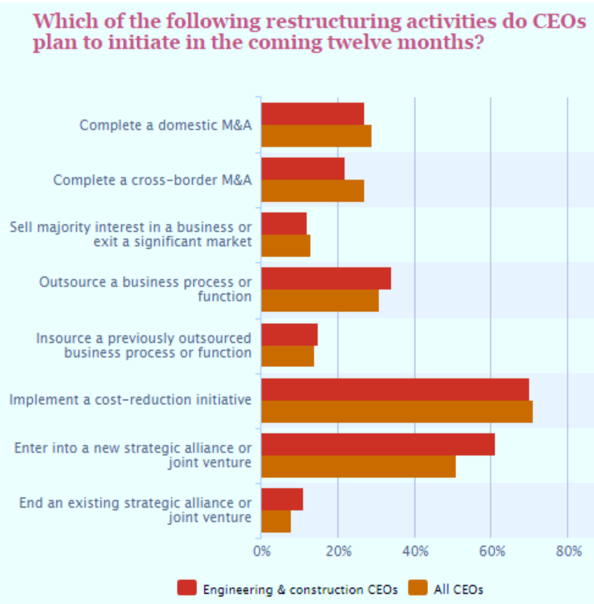
5. KNOWING THE POTENTIAL PITFALLS

It is as well to understand the potential pitfalls, and in what areas they exist.

THE FISHBONE DIAGRAM- The Fatal Flaws

Source: The Fishbone Diagram on-line





Source: Internet

Joint Ventures and Strategic Alliances and Implementing Cost-Reduction initiatives do not lead to major Consolidation and Balance Sheet strengthening. Some companies will become victims of M&A if they don't embrace the opportunities to use them to their advantage.

TOP 100 ICONIC CEOs IN EUROPE OF RECENT PAST

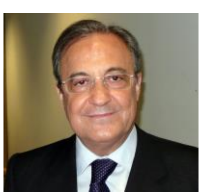
Source: Harvard Business Review 2015

From where will the Industry find its future leaders, to emulate the successes of current iconic leaders.

Who Will Be The Future Leaders Of The UK Construction Industry

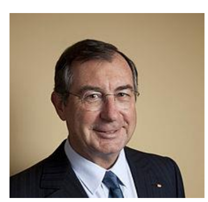
"I would be a more successful leader, if only I had more successful people to lead."

RANK	COMPANY	CEO	2013 APPROVAL RATING	2012 APPROVAL RATING	+/
1	facebook	Mark Zuckerberg	99%	85%	+1
2	SAP	Bill McDermott & Jim Hagemann Snabe	99%	92%	+7
3	McKinsey&Company	Dominic Barton	97%	96%	+1
4	Ernst & Young	Jim Turley	96%	95%	+1
5	Northwestern Mutual	John E. Schlifske	96%	93%	+3
6	Cognizant	Frank D'Souza	96%	92%	+4
7	EMC²	Joe Tucci	96%	87%	+9
8	Qualcomm	Paul E. Jacobs	95%	94%	+1
9	usbank	Richard K. Davis	95%	87%	+8
10	accenture	Pierre Nanterme	95%	90%	+5
11	Google	Larry Page	95%	95%	0
12	citrix	Mark B. Templeton	95%	97%	-2
13		Marc Benioff	94%	92%	+2
14	ADP	Carlos A. Rodriguez	94%	98%	-4
15	NVIDIA	Jen-Hsun Huang	94%	91%	+3
16	amazon	Jeff Bezos	93%	80%	+1
17		Hans Vestberg	93%	87%	+6
18		Tim Cook	93%	97%	-4
19		Howard D. Schultz	92%	88%	+4



Rank 7. Florentino Perez Rodriguez, ACS — Spaniard Perez is probably most famous as the President of Real Madrid Football Club, where he paid record transfer fees for players many times. However, he makes the Harvard Business Review's list for his role as chairman and CEO of hugely successful Spanish civil engineering firm ACS.

However ACS reported losses of over €2bn in 2015. The heavily leveraged construction company had drastically overstated its earnings, and had a lot of hidden liabilities, as well as suffering from signs of problematic project execution. Some things never change in Construction. ACS may not be too keen to expend just now in the UK either. Good leadership does not guarantee a smooth ride.



Rank 16. Martin Bouygues, Bouygues — Bouygues has led the eponymous French conglomerate since 1989, when he took over the chief executive position from his father, the company's founder. As a company, Bouygues specialises in construction, real estate development, and telecoms.

Although Bouygues Group posted a €400m profit in 2015, Bouygues UK filed a £19.5m loss before tax for the year in 2015, and the Company's palate for more exposure to the UK Construction market is far from certain.

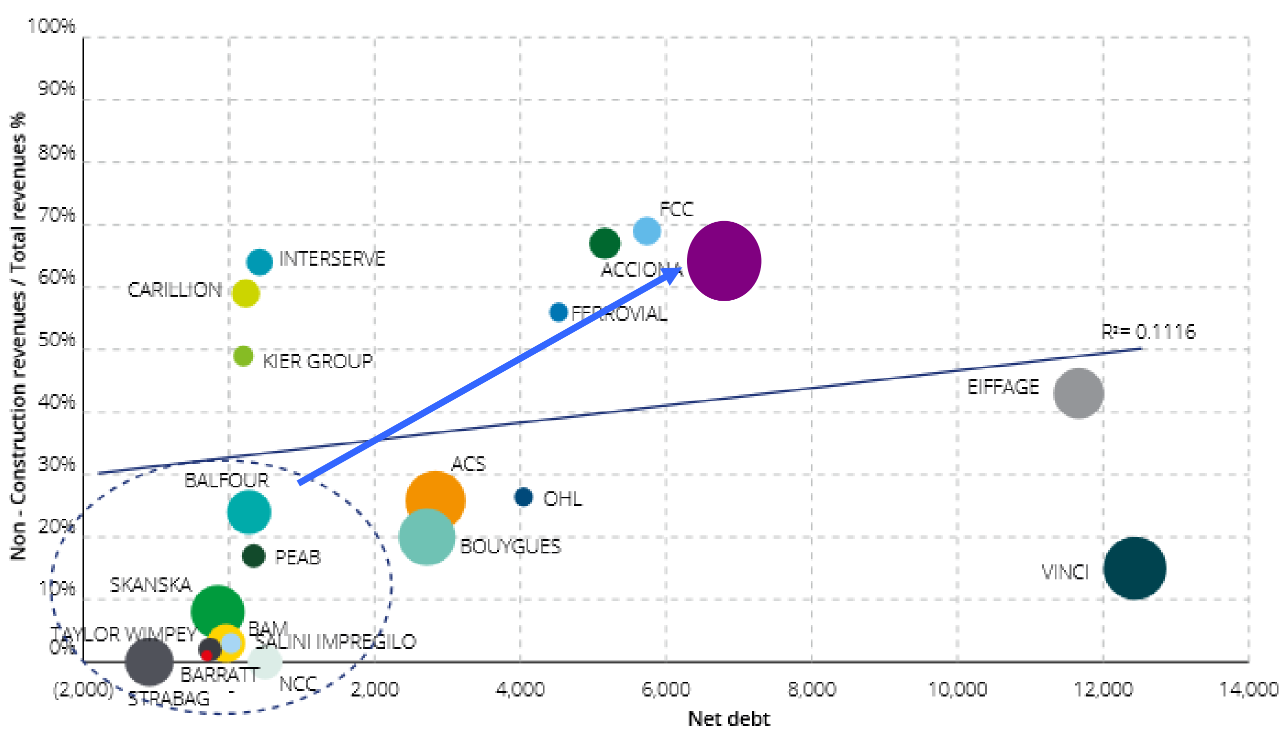
Martin Bouygues' personal fortune is stated as over €1.3bn.

FUTURE DIVERSIFICATION UNDER NEW LEADERSHIP

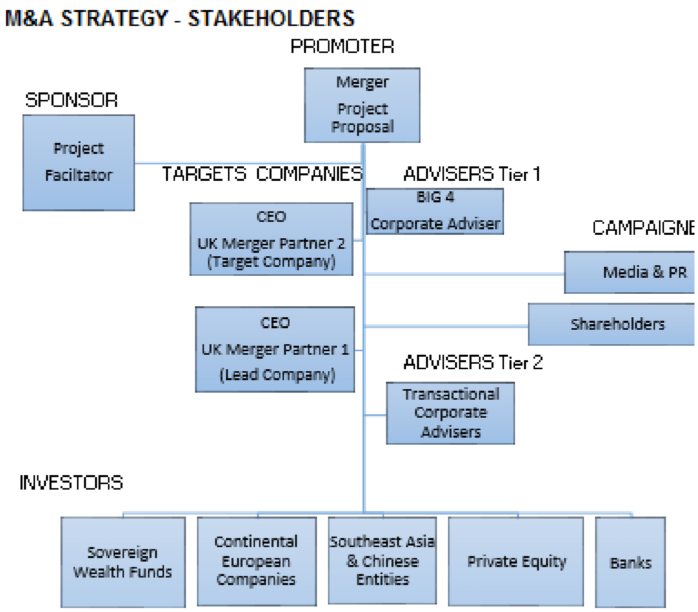
After the process of Company, and ultimately, Industry Consolidation is complete, focus will shift to Strategies for Growth, and here too M&A will pay a lead role. Investment should be focused on Diversification, both Geographical, and in terms of Non-Construction Revenue. Even for the Major Groups without significant Gearing, this may be best achieved via new Equity and Debt instruments. It is note that most of the well-diversified European Competitors have higher levels of debt that do their UK counterparts.

The traditional construction business is generally characterized by low investment, tight margins and low working capital and financing needs. These factors explain why groups engaging solely in construction activities do not need relevant financing in order to carry out their activities, except where operating losses at project level have taken their toll (eg. Costain's Rights Issues in the past). These factors explain why groups engaging solely in construction activities do not need significant financing in order to carry out their activities. However, the diversified groups involved in Public Private Partnerships (PPPs) and Project Finance Initiatives (PFIs) in the financing of civil engineering, as well as the groups that have performed relevant mergers and acquisitions, have required significant external financing resources in order to perform such operations.

The UK groups Carillion, Kier and Interserve managed to diversify their traditional construction businesses without incurring significant leverage, since the new activities performed relate mainly to support services that do not require significant financing.

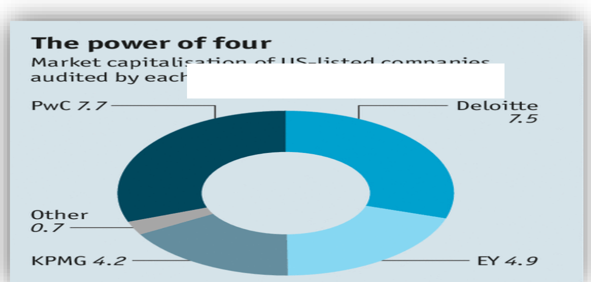


Source: Deloitte analysis



The UK construction industry has the opportunity to enter into transformational merger(s) to re-invent itself, and its role in the UK economy. Rather like some of its peer industries- eg. the UK Accounting Audit companies transformed themselves into the "Big 4" by attracting quality graduates, diversifying their services portfolio into Corporate Advisory roles, and engaging in mega-international M&As, to become the four largest professional services networks in the world.

The BIG 4



Source: Audit Analytics

The firms were called the "Big 8" for most of the 20th century, reflecting the international dominance of the eight largest firms, until transformational M&A took place:

- Arthur Andersen (until its closure in 2002 for a conviction related to the Enron scandal which was later overturned by the US Supreme Court)
- Coopers and Lybrand (until 1973 Cooper Brothers in the UK and Lybrand, Ross Bros., & Montgomery in the United States)
- Ernst & Whinney (until 1979 Ernst & Ernst in the United States and Whinney Murray in the UK)
- Deloitte Haskins & Sells (until 1978 Haskins & Sells in the United States and Deloitte & Co. in the UK)
- Peat Marwick Mitchell (later Peat Marwick, then KPMG)
- Price Waterhouse
- Touche Ross
- Arthur Young

It is accepted that Accounting is a Global Business with Economies of scale in Client Bases (perhaps with local idiosyncrasies) , and Construction is essentially a fragmented, local business. But that perception is changing. Construction is also a People Business that needs Global Reach, and Local Influence and Resource.

A commonly mentioned reason for an acquisition or merger is the desire to transform one or both companies. Transformational mergers are rare, however, because the circumstances have to be just right, and the management team needs to execute the strategy well.

Transformational mergers can best be described by example. One of the world's leading pharmaceutical companies, Switzerland's Novartis, was formed in 1996 by the $30 billion merger of Ciba-Geigy and Sandoz. But this merger was much more than a simple combination of businesses: under the leadership of the new CEO, Daniel Vasella, Ciba-Geigy and Sandoz were transformed into an entirely new company. Using the merger as a catalyst for change, Vasella and his management team not only captured $1.4 billion in cost synergies but also redefined the company's mission, strategy, portfolio, and organization, as well as all key processes, from research to sales. In every area, there was no automatic choice for either the Ciba or the Sandoz way of doing things; instead, the organization made a systematic effort to find the best way.

Novartis shifted its strategic focus to innovation in its life sciences business (pharmaceuticals, nutrition, and products for agriculture) and spun off the $7 billion Ciba Specialty Chemicals business in 1997. Organizational changes included structuring R&D worldwide by therapeutic rather than geographic area, enabling Novartis to build a world-leading oncology franchise.

Across all departments and management layers, Novartis created a strong performance-oriented culture supported by shifting from seniority- to a performance-based compensation system for managers.

The corollary of this debate is- Do the UK construction companies have the leaders, or the inclination to make transformational change to consolidate their industry- or will it be bestowed on the large US, Asian, or Continental Europeans to lead the way.

"The UK Construction Groups with strong UK market positions, but low levels of Debt, will benefit from Consolidating their positions via UK Mergers, and should then start to rectify their relatively low levels of Diversification into Non-Construction Business. They should achieve this by using their Combined Balance Sheet strengths to secure substantial new Sources of Finance, to Fund an M&A Strategy targeted at achieving the required Diversification, both in Non-Construction Activity and further internationalisation, following the trusted Strategic Models of a few successful European Majors. UK Companies have been left behind.

Funding for M&A led Growth can be achieved via a combination of internal Cash Flow, New Equity Issues, Debt or Convertible Debt. Diversification, and Finance for it, should be secured either as stand-alone businesses, or via Strategic Alliances with new Ownership Structures/ Strategic Partners."

Deceptive, fraudulent and insubstantial

"And I'm happy to say, that since the merger…"

"Back to the future."

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