



# 2003 Preliminary Results

10 March 2004

Balfour Beatty



**Anthony Rabin**

**Balfour Beatty**

# Headline numbers

	2003	2002	
Turnover	£3,678m	£3,441m	+7%
Operating profit*	£161m	£149m	+8%
Pre-tax profit*	£130m	£118m	+10%
Earnings per share*	20.6p	16.1p	+28%
Dividends per share	6.0p	5.4p	+11%
Net cash	£124m	£67m	
Order book	£5.8bn	£5.1bn	+14%

\* Before exceptionals and goodwill amortisation

# Performance by sector

£m	2003	2002	
<b>Building, Building Management and Services</b>	<b>45</b>	<b>46</b>	<b>-2%</b>

# Building, Building Management and Services

£m	2003	2002
Construction	17	20
Services and systems	28	26
Operating profit	45	46

- Construction businesses continue to perform well – major project phasing impact
- Andover and Heery businesses steady in dollar terms
- Full year contribution from Romec

# Performance by sector

£m	2003	2002	
Building, Building Management and Services	45	46	-2%
<b>Civil and Specialist Engineering and Services</b>	<b>21</b>	<b>17</b>	<b>+24%</b>

# Civil and Specialist Engineering and Services

£m	2003	2002
Civil and specialist engineering	13	5
Services	8	12
Operating profit	21	17

- UK market prospects good and improving
- US performance on improving trend with claims submitted
- Utilities business reorganised – gas business mix issues now resolved

# Performance by sector

£m	2003	2002	
Building, Building Management and Services	45	46	-2%
Civil and Specialist Engineering and Services	21	17	+24%
<b>Rail Engineering and Services</b>	<b>41</b>	<b>37</b>	<b>+11%</b>

# Rail Engineering and Services

£m	2003	2002
Projects and specialist businesses	26	25
UK infrastructure services	15	12
Operating profit	41	37

- Metronet track work now commenced
- European business performs well with major new contracts secured
- UK infrastructure services continue to perform well – Wessex contract handed over
- Remainder of UK maintenance to be taken in-house by Network Rail

# Performance by sector

£m	2003	2002	
Building, Building Management and Services	45	46	-2%
Civil and Specialist Engineering and Services	21	17	+24%
Rail Engineering and Services	41	37	+11%
<b>Investments and Developments</b>	<b>54</b>	<b>49</b>	<b>+10%</b>
Operating profit*	161	149	+8%

\* Before exceptionals and goodwill amortisation

# Investments and Developments

£m	2003	2002
PFI/PPP*	48	34
Barking Power	6	15
Profit before interest	54	49
Profit after interest	26	23

- 9 month contribution from Metronet at budgeted levels
- Barking Power significantly affected by TXU administration

\* Including Property

# Operating profit v operating cash flow

£m	2003	2002	2001
Group operating profit	68	67	61
add back: goodwill amortisation	15	19	10
<b>Group operating profit*</b>	<b>83</b>	<b>86</b>	<b>71</b>
Depreciation	43	40	35
Exceptional items – cash receipts/(expenditure)	5	(9)	(4)
Other items	(2)	-	-
Working capital decrease	41	25	15
<b>Net cash inflow from operations</b>	<b>170</b>	<b>142</b>	<b>117</b>

\* Before exceptionals and goodwill amortisation

# Balance sheet cash movement

	£m
Opening net cash	67
Net cash inflow from operations	170
Dividends from J/Vs and associates	11
Capital expenditure and financial investment	(40)
Acquisitions	(21)
Buy-back of preference shares	(16)
Dividends and interest	(38)
Tax paid	(25)
Other items	16
Closing net cash	124

# Acquisitions – net cash

	£m
Acquisition of Mansell	43
Less: deferred consideration and costs	(11)
Less: cash at acquisition date	(15)
Cash outflow for Mansell	<u>17</u>
Deferred consideration for earlier acquisitions	<u>4</u>
Net cash outflow on acquisitions	21

*Note: excludes Mansell term deposits £5m*

# Exceptional items

	£m
Compensation for loss of use of operating facility	10
Profit on compulsory sale of operating facility	12
Cancellation of Network Rail maintenance contracts	(7)
Provision for certain residual US cables issues	(8)
Provision for loss on disposal of Garanti Balfour Beatty	(2)
Net exceptional profit	5

# Pensions

£m	2003	2002
P&L charge – SSAP 24	28	19
– FRS 17	35	27

- Two main funds show £70m actuarial surplus at end 2003
- £164m deficit under FRS 17 for two main funds
- Disparity due entirely to differences in discount rates
- Fair value provision of £38m for actuarial deficits on Mansell funds

# Group balance sheet

£m	2003	2002	2001
Goodwill*	318	280	255
Net cash	124	67	63
Other assets/(liabilities)	(212)	(154)	(133)
Shareholders' funds	230	193	185

*\* Includes share of joint ventures and associates*

# Summary

Continuing growth in underlying earnings

Strong cash flow

Cash available to further improve business mix

**Mike Welton**

**Balfour Beatty**

# Key 2003 developments

Augmented cash resources add to forward flexibility

Mansell acquisition extends UK footprint

PPP portfolio augmented with six new concessions

Order book increased by 14% despite loss of rail maintenance contracts

New US senior management team appointed

# Key objectives

Sustainability - Better, more secure margins

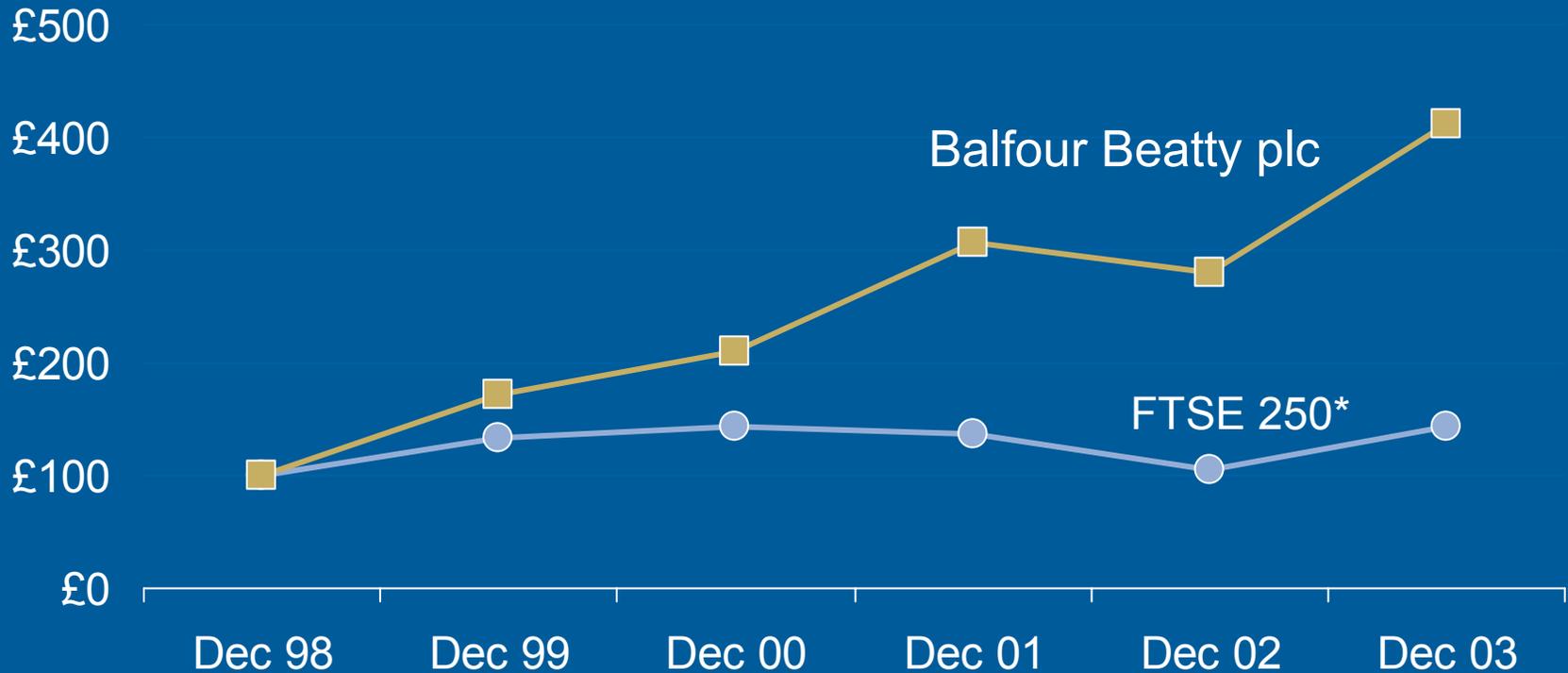
Focus - Maintain competitive advantage

Growth - Organic and by acquisition

Process - Continuous improvement

# TSR growth relative to FTSE 250

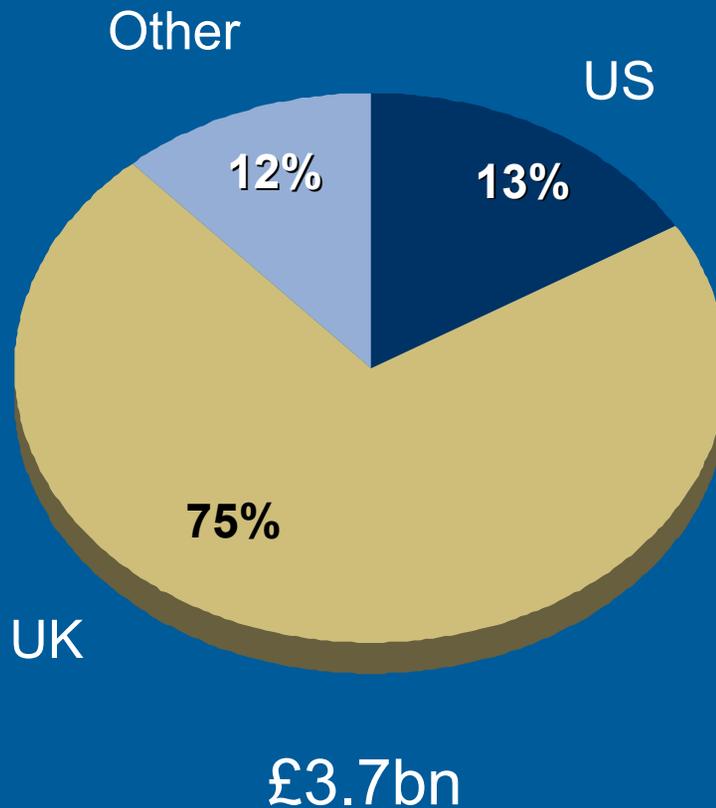
Value of hypothetical £100 holding



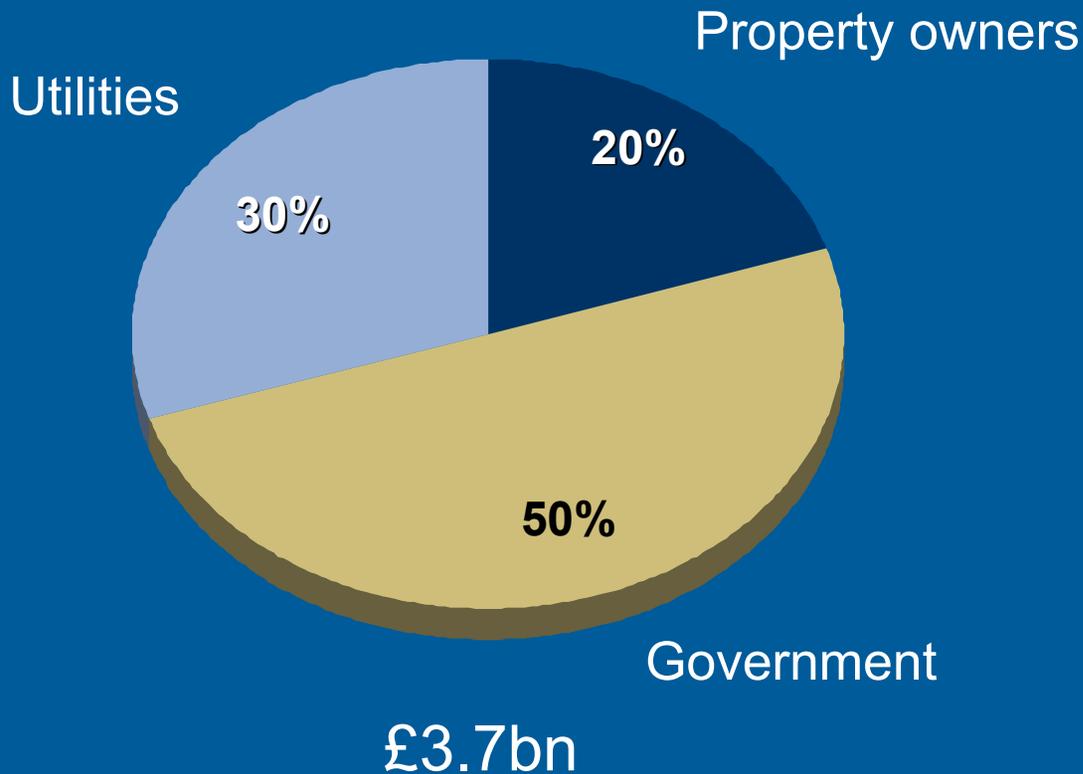
\*excl Investment Trusts

# Markets and strategy

# Current sales by region 2003



# Sales by customer type 2003



# UK public sector procurement

## Substantial forward programmes in public building

- PPP in healthcare and education
- LIFT and Procure 21
- Building Schools for the Future
- Social housing programme

# UK public sector procurement

## Road and other major infrastructure markets

- Growing market for strategic and project / programme management
- Major plans for capital spending on roads remain in place

# The UK roads market

## 10-year plan

- £21 billion for highways
  - £11 billion capital spend
  - £3 billion PPP/DBFO

## Key bypass / upgrade projects

- Early Contractor Involvement
  - A3 Hindhead and A303 Stonehenge already secured
  - A1/M1 and A46 on their way to market

## Key widening projects

- M25; M1 J6a-10; M1 J10-13; M6 J11-19

# The UK roads market

## Management and maintenance

- Trend to MACs for trunk roads
- 13 Local Authority bids worth £1.6bn in next three years

# UK rail

## A time of major change

- Maintenance in process of going in-house
- New renewals contracts close to signature
- Major project outlook remains uncertain

# PPP / PFI

Large-scale project market continues to provide significant opportunities

- Healthcare
- Education
- Transport

# PPP / PFI - Healthcare

## Bids (total value £1.48 bn)

• Birmingham	£521m	Preferred
• St Helens	£285m	1 of 2
• Pinderfields	£290m	1 of 2
• Northern Batched	£386m	1 of 3

## Prospects (total value £1.6 bn)

- Tameside, East Midlands Mental Health, Glasgow Southern, Whipps Cross, Wolverhampton, Paddington Basin, Torbay, Fife

# PPP / PFI - Education

## Bids (total value £300 million)

- |                |       |        |
|----------------|-------|--------|
| • North Lanark | £130m | 1 of 2 |
| • Bassetlaw    | £110m | 1 of 3 |
| • Birmingham   | £60m  | 1 of 2 |

## Prospects (total value £500 million)

- Newcastle, Oldham, Rochdale, Edinburgh, Gateshead, Ealing, Bromsgrove

# Transport

## Bids

- |                  |         |            |
|------------------|---------|------------|
| • Powerlink      | £350m   | Negotiated |
| • Vancouver Rail | £1,500m | 1 of 3     |

# Utilities

## A time of change

- Regulatory reviews in gas and water
- Major bid opportunities in 2004
- Impact of renewables on the grid

# US

US road, rail and other infrastructure expenditures show healthy trends

Federal road and transit spend set to grow by 11-30% over next six years

US Class 1 industrial and commuter rail markets continue to be healthy

Education spend continues to increase

# Other markets

Growth opportunities in variety of national rail markets

Good positions in strong local markets in Hong Kong and the Gulf

# Our core skills and key competitive advantages

Engineering excellence

Expert project management

Strong financial disciplines and skills

Commercial management

Management of large-scale skilled blue collar labour

Delivery of integrated multi-disciplinary solutions

# Our markets

Majority – established positions of leadership in local / regional markets

Minority – technology-based businesses which are internationally transportable

# Strategic priorities

Continue to improve our existing range of businesses

Grow where we are established, in markets we understand

Further enhance existing strong UK footprint

Extend portfolio of PPP projects

Develop US presence on our UK model

# Strategic priorities

Consolidate our strong position in Asia-Pacific through Hong Kong base

Dispose of non-core geographic businesses

Extend rail footprint where we are already established (mainly in mainland Europe)

Export UK PPP skills and experience

# Key 2004 programmes

Integrate and develop Mansell

Complete hand-over of maintenance

Progressive introduction of ERP IT and related systems

# 2004 outlook