Balfour Beatty

2012 half-year results presentation

15 August 2012

IAN TYLER

Chief Executive Officer

Half-year 2012

- A resilient business
- £5bn of orders in six months
- Increased margins in Professional Services
- Mitigating the negative trend in construction margins with cost savings
- EPS further enhanced by asset disposals

DUNCAN MAGRATH

Chief Financial Officer

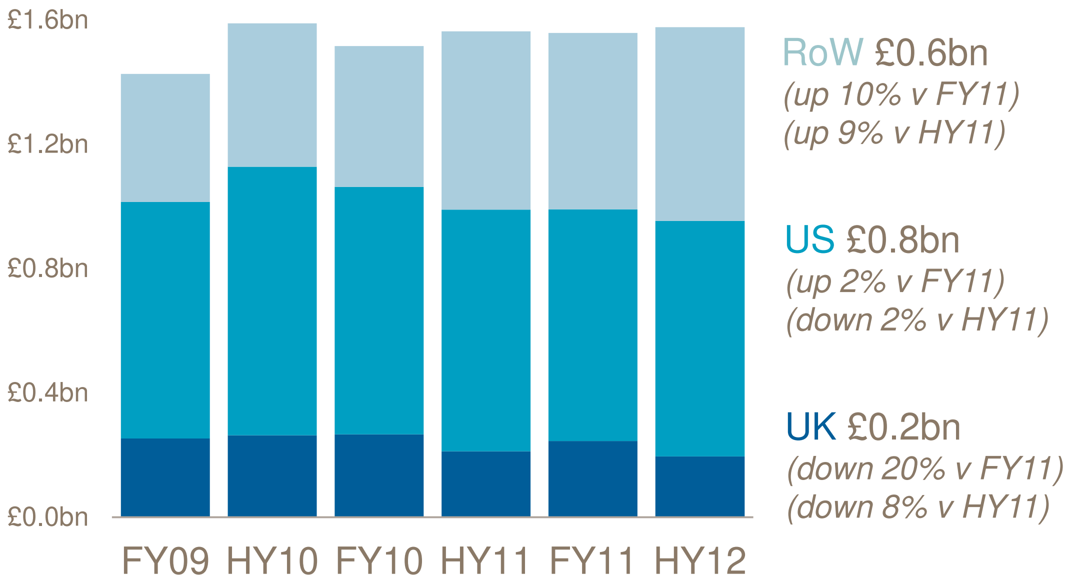
Headline underlying numbers
Good earnings growth

	HY 2012	HY 2011	Actual growth	Constant currency
Revenue including JVs & assoc	£5,535m	£5,222m	+6%	+5%
Profit from operations*	£156m	£136m	+15%	+14%
Pre-tax profit*	£154m	£138m	+12%	
Underlying EPS*	18.8p	14.7p	+28%	
Interim dividend	5.6p	5.3p	+6%	
Average cash for the half-year	£35m	£296m		
Net cash (excluding 100% PPP)	£34m	£292m		
Directors' valuation of PPP	£711m	£682m		
	HY 2012	**FY 2011**		
Order book	£15.0bn	£15.2bn	-1%	-1%

** from continuing operations, before non-underlying items*

Professional Services – HY 2012 by geography

Good steady performance

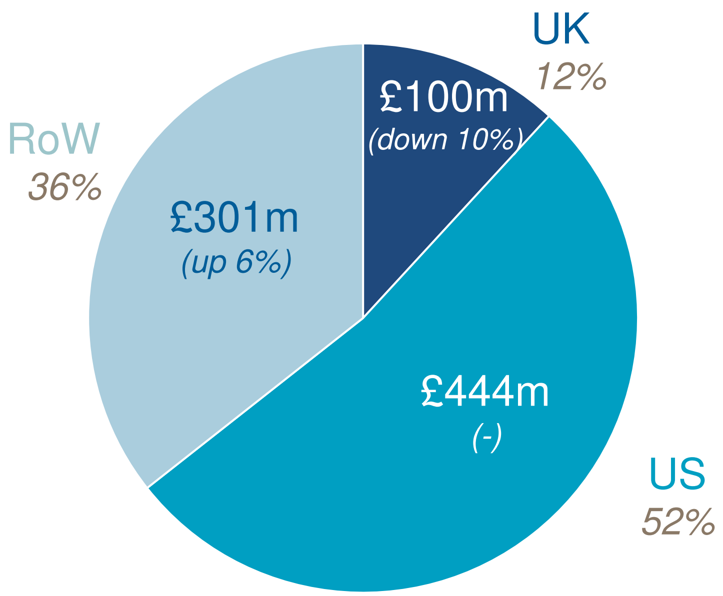


Order book

£1.6bn

(up 1% v FY11: £1.6bn)

(up 1% v HY11: £1.6bn)



Revenue

£845m up 1%

(HY11: £840m)

Percentage changes relative to HY11

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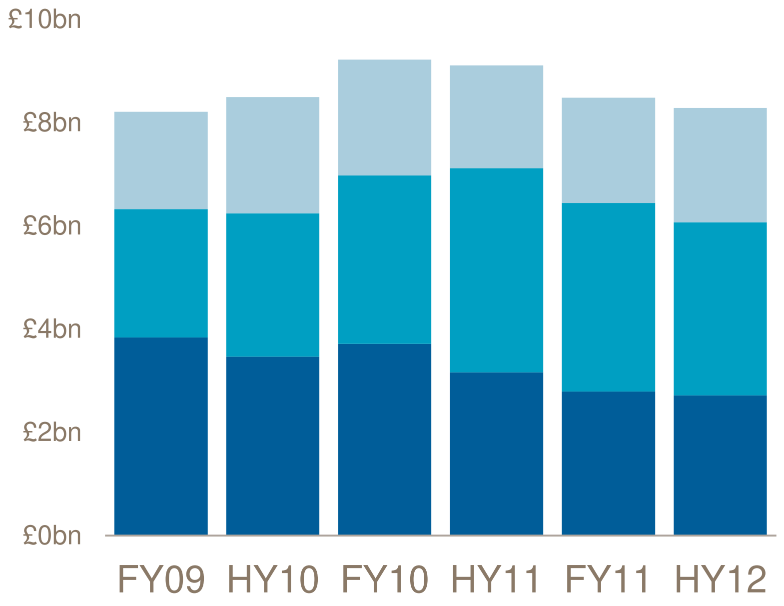
Professional Services

FY 2011		HY 2012	HY 2011	Actual growth	Constant currency
£1.6bn	Order book	£1.6bn	£1.6bn	+1%	+1%
£1,645m	Revenue	£845m	£840m	+1%	-
£87m	Profit*	£42m	£38m	+11%	+11%
5.3%	Margin %	5.0%	4.5%		

** before non-underlying items*

- Improved margin v HY 2011
- Good performance in the US, particularly power and transportation
- Growth in RoW, particularly Qatar, Australia and Canada
- UK performs steadily in tough market
- Full year margin expected to improve on FY 2011

Construction Services – HY 2012 by geography
Strong US revenue growth

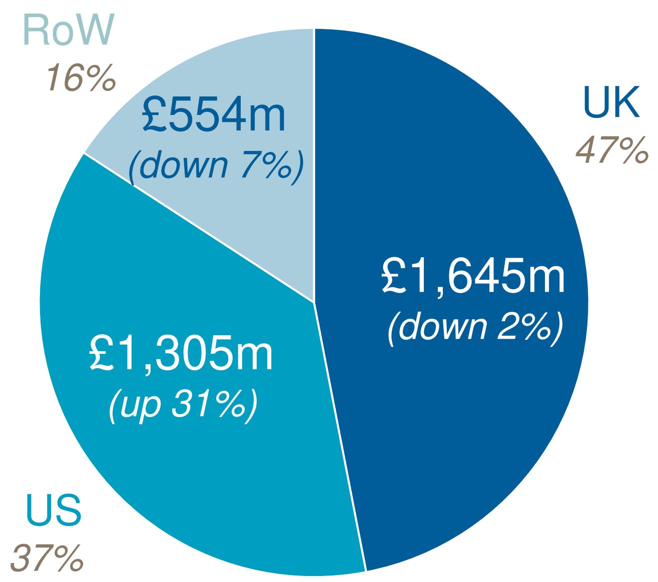


RoW £2.2bn
(up 9% v FY11)
(up 11% v HY11)

US £3.4bn
(down 8% v FY11)
(down 15% v HY11)

UK £2.7bn
(down 3% v FY11)
(down 14% v HY11)

Order book
£8.3bn
(down 2% v FY11: £8.5bn)
(down 9% v HY11: £9.1bn)



Revenue
£3,504m up 7%
(HY11: £3,270m)
Percentage changes relative to HY11

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Construction Services

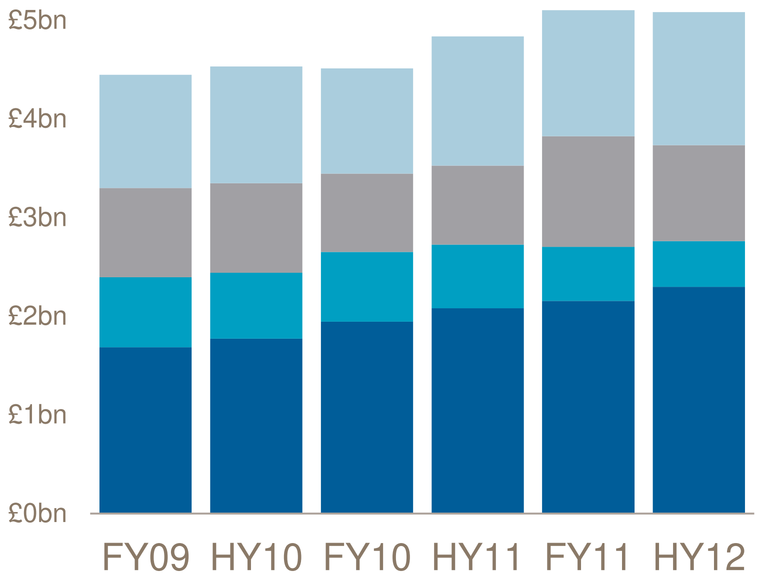
FY 2011		HY 2012	HY 2011	Actual growth	Constant currency
£8.5bn	Order book	£8.3bn	£9.1bn	-9%	-9%
£7,050m	Revenue	£3,504m	£3,270m	+7%	+7%
£169m	Profit*	£53m	£67m	-21%	-21%
2.4%	Margin %	1.5%	2.0%		

** before non-underlying items*

- Good revenue performance in the US, but as anticipated, margin down
- Good operational delivery in the UK, but future margin pressure
- Reduced rail performance in UK and Europe
- Continuing revenue and order growth in Hong Kong
- Low volumes in the UAE, but cash outlook improving
- Full year margin expected to be around 2%

Support Services – HY 2012 by geography

Revenue growth across three sectors



Building £1.3bn
(up 6% v FY11)
(up 3% v HY11)

Power £1.0bn
(down 13% v FY11)
(up 22% v HY11)

Water £0.5bn
(down 16% v FY11)
(down 28% v HY11)

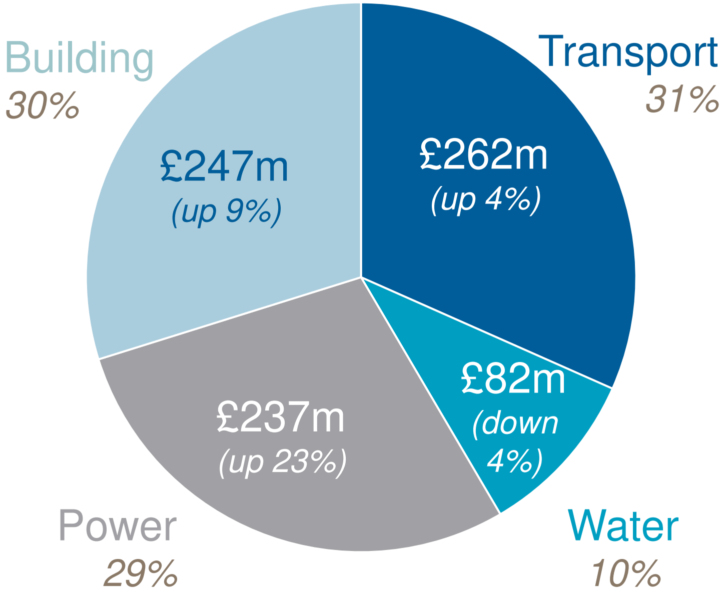
Transport £2.3bn
(up 7% v FY11)
(up 10% v HY11)

Order book

£5.1bn

(no change v FY11: £5.1bn)

(up 5% v HY11: £4.8bn)



Revenue

£828m up 9%

(HY11: £757m)

Building includes business services outsourcing and facilities management
Transport includes highways management and rail renewals

Percentage changes relative to HY11

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Support Services

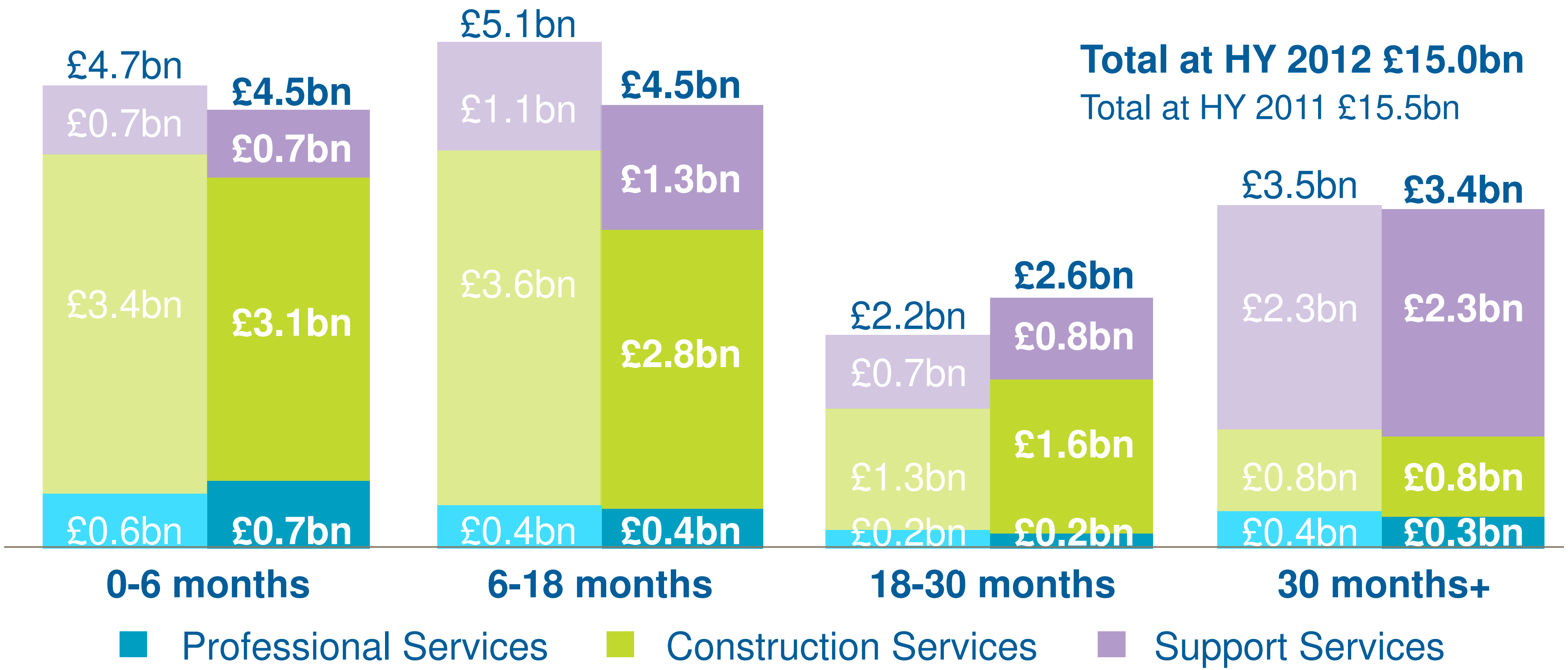
FY 2011		HY 2012	HY 2011	Actual growth	Constant currency
£5.1bn	Order book	£5.1bn	£4.8bn	+5%	+5%
£1,584m	Revenue	£828m	£757m	+9%	+9%
£67m	Profit*	£10m	£25m	-60%	-60%
4.2%	Margin %	1.2%	3.3%		

** before non-underlying items*

- Stable order book after strong growth last year
- Good revenue growth in power, transport and buildings
- Cost increases in a small number of Utilities projects
- Start-up costs skewing profitability to second half
- H2 margin % expected to exceed H2 2011

Order book position compared to a year ago

Resilient order book, despite reduced construction orders



In each series group, left-hand column represents the order book as at 1 July 2011, and the right-hand column as at 29 June 2012

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Infrastructure Investments
Strong earnings performance

FY 11	£m	HY 2012 Group	HY 2012 JVs & assoc	HY 2012 Total	HY 2011 Group	HY 2011 JVs & assoc	HY 2011 Total
38	PPP UK/Singapore	1	19	20	-	19	19
19	PPP US	9	4	13	9	3	12
(4)	Infrastructure	(2)	(1)	(3)	(2)	(1)	(3)
(30)	Bidding costs and overheads	(15)	-	(15)	(20)	-	(20)
23	Pre-disposals operating profit*	(7)	22	15	(13)	21	8
20	Gain on disposals	52	-	52	14	-	14
43	**Investments operating profit***	**45**	**22**	**67**	**1**	**21**	**22**
25	*Subordinated debt interest income*			*11*			*12*
3	*PPP subsidiaries' net interest*			*2*			-
71	**Investments pre-tax result***			**80**			**34**
64	*Investments post-tax result**			*75*			*32*

** from continuing operations, before non-underlying items*

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Infrastructure Investments

- Achieved financial close on
  - Waste facility in Essex
  - Western Group military housing for US Air Force
- Preferred bidder on
  - Energy-from-waste facility in Gloucestershire
  - Two offshore transmission (“OFTO”) projects (Thanet & Greater Gabbard)
  - Two military housing projects for US Air Force (ACC Group III & Northern Group)
- Directors’ valuation at £711m, after disposals of £84m

Net interest cost

Increased interest cost due to lower cash balances

FY 11	£m		HY 2012	HY 2011
25	PPP subordinated debt interest receivable		11	12
	PPP interest on financial assets	15		
3	PPP interest on bank loans and overdrafts	(13)	2	-
(3)	Net finance costs – pension schemes		-	(1)
	Other interest receivable	3		
(10)	Other interest payable	(12)	(9)	(3)
(12)	Preference shares finance cost		(6)	(6)
3	**Net (finance costs)/investment income**		**(2)**	**2**

Non-underlying items

£m	
Restructuring and reorganisation costs relating to existing businesses	(14)
Post-acquisition integration, reorganisation and other costs	(12)
Write-down of investment in Exeter Airport	(12)
Other non-underlying items	**(38)**
Amortisation of acquired intangible assets	(23)
Non-underlying items before tax	**(61)**
Tax on non-underlying items	16
	(45)

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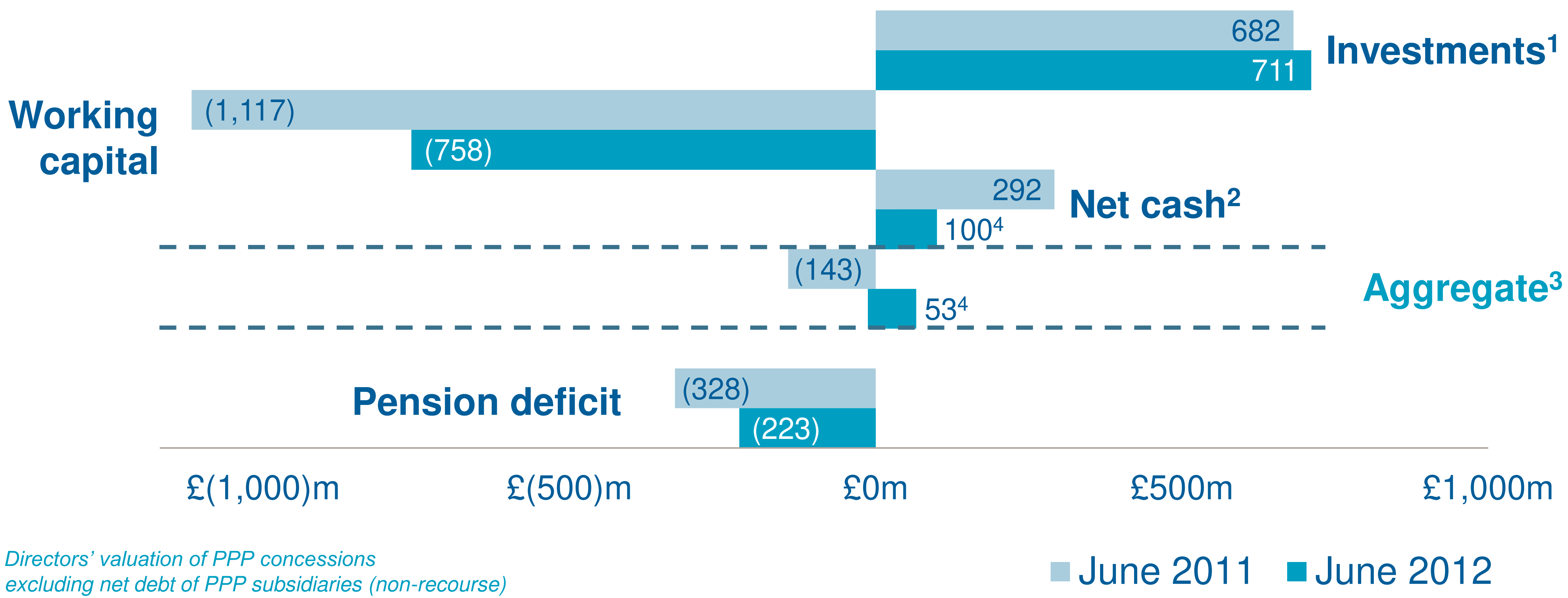
Cash from operations – HY 2012
Cyclical operating working capital outflow

£m	HY 2012	H2 2011	H1 2011
Group operating profit*	104	150	106
Depreciation	32	34	36
Non-underlying items	(26)	(8)	(11)
Profit on disposal of investments in PPP JVs	(52)	(6)	(14)
Other items	1	5	2
	59	**175**	**119**
Pension deficit payments – ongoing	(31)	(28)	(30)
Operating working capital (increase)/decrease	(320)	2	(203)
Cash (used in)/generated from operations	**(292)**	**149**	**(114)**
Net capex and purchase of intangibles	(28)	(30)	(45)
	(320)	119	(159)

** before non-underlying items*

Balance sheet elements
Changing shape, continued strength



[1] Directors' valuation of PPP concessions
[2] excluding net debt of PPP subsidiaries (non-recourse)
[3] aggregate balance of investments, working capital and net cash
[4] adjusted to include £66m cash from disposal of interest in Health Management (UCLH) received after the period end

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PPP portfolio valuation movements – HY 2012

Continuing crystallisation of value

£m

Valuation as at December 2011			743
Cash invested		39	
Cash received – distributions	(42)		
– disposals *	(84)	(126)	
	Net cash received *		(87)
Unwind of discount on NPV			33
New project wins			-
Disposal gains + FX			22
Valuation as at June 2012			**711**

** includes £66m from disposal of interest in Health Management (UCLH) although the cash was received after the period end*

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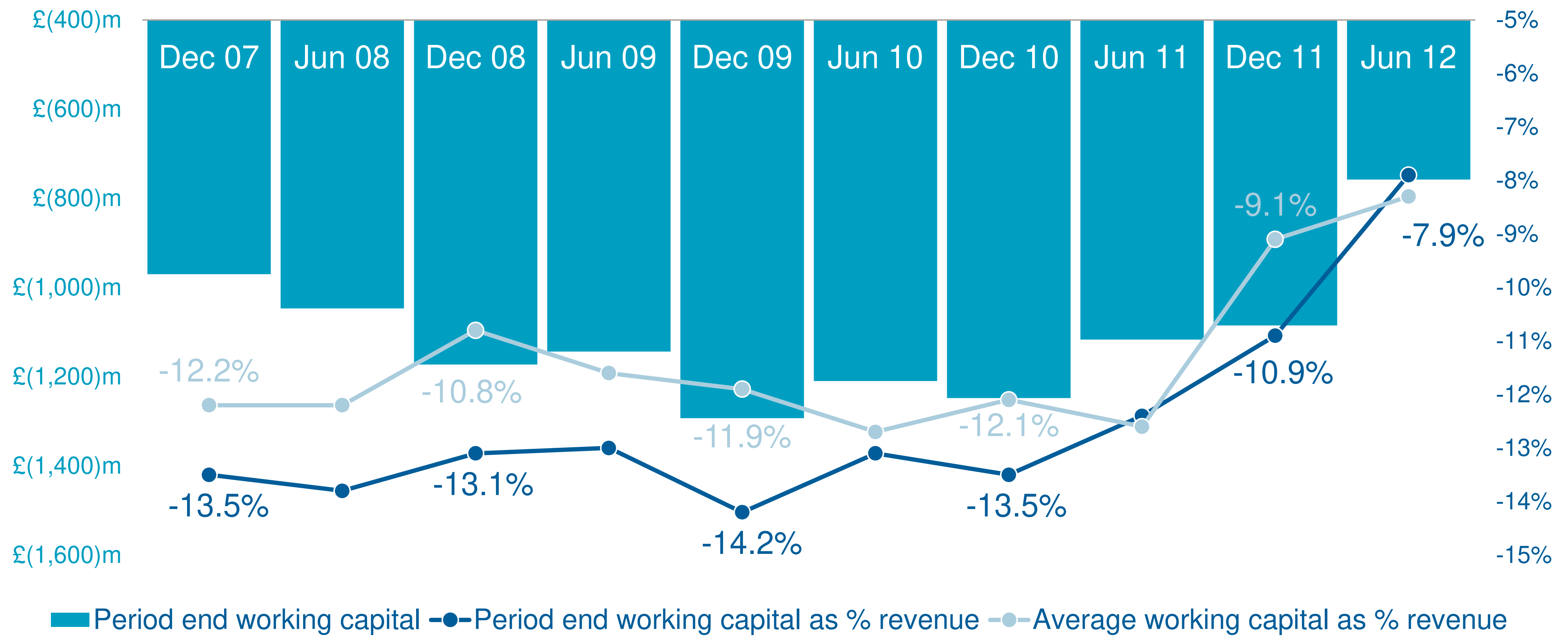
Working capital – Group
Cyclical reduction in negative working capital



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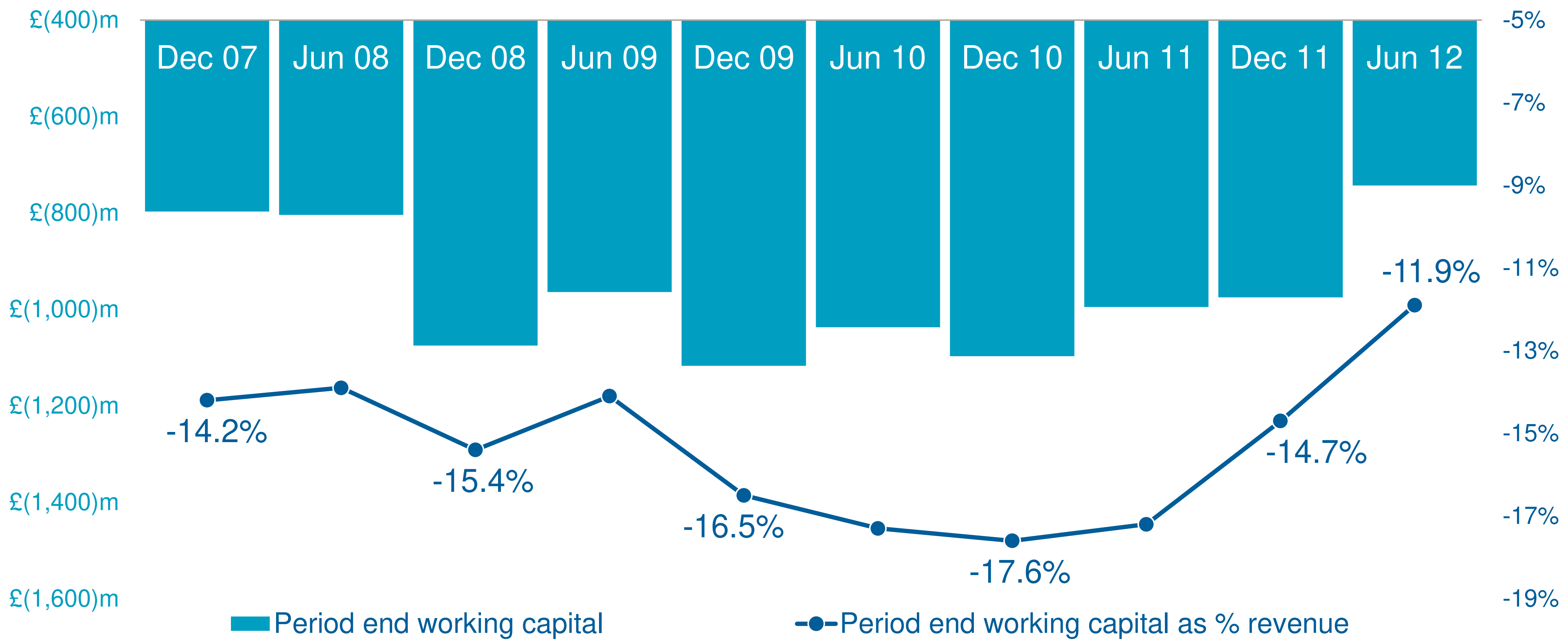
Working capital – Construction Services
Reductions due to cyclicality and mix



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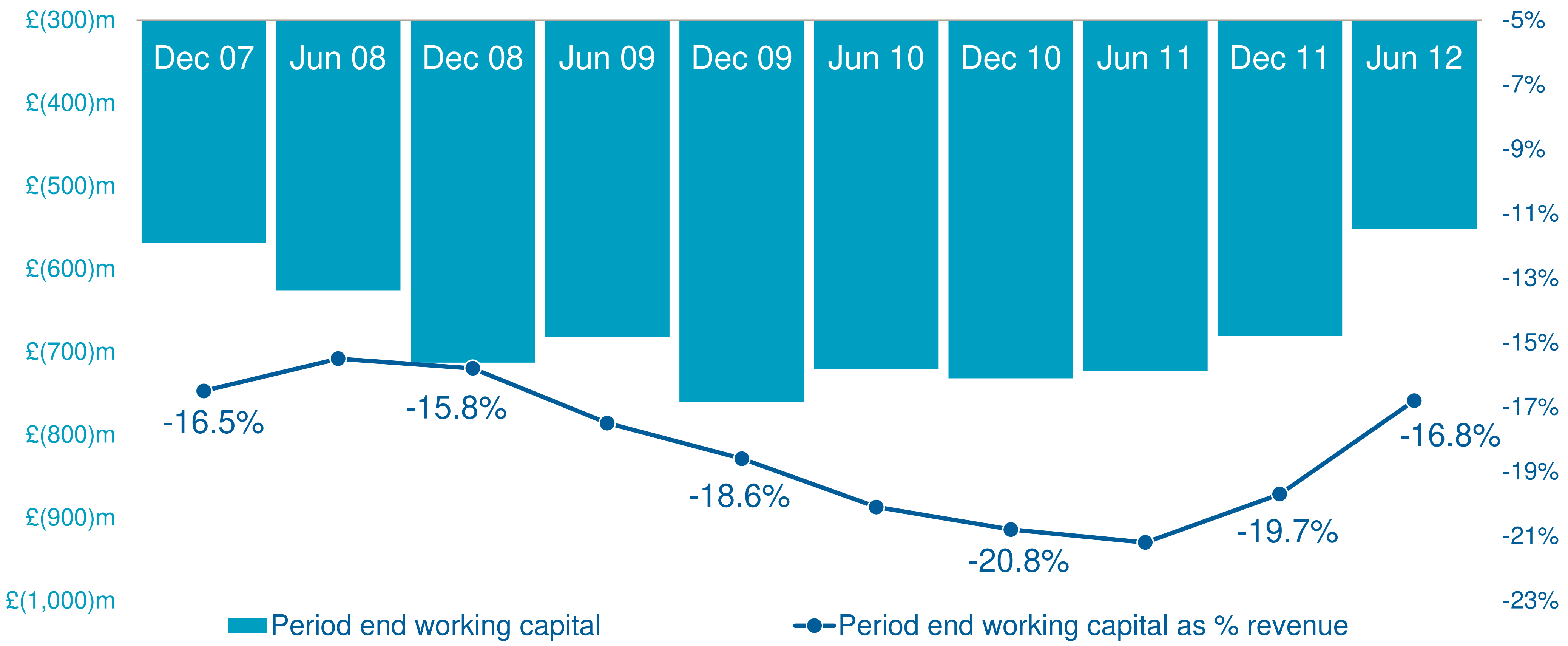
Working capital – Construction Services UK

Reduced negative working capital from peak - still significant



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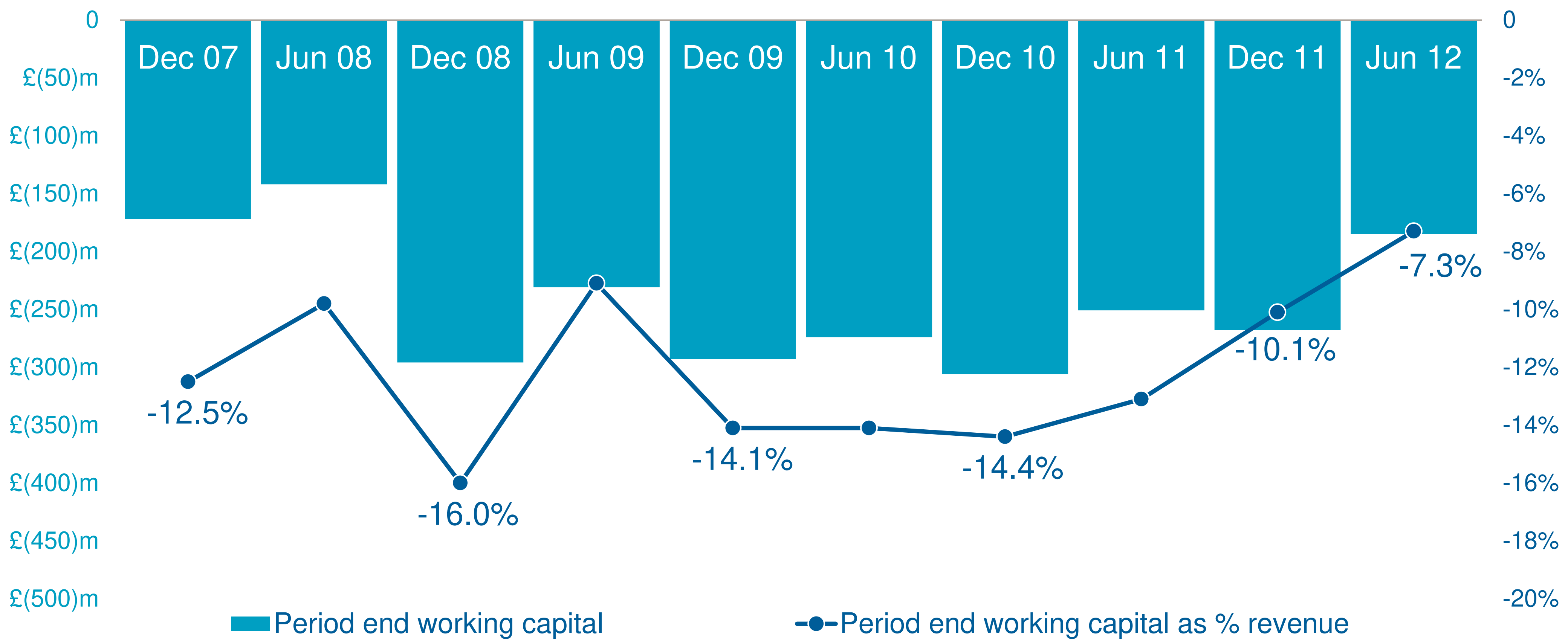
Working capital – Construction Services US
Less negative and ahead of UK cycle



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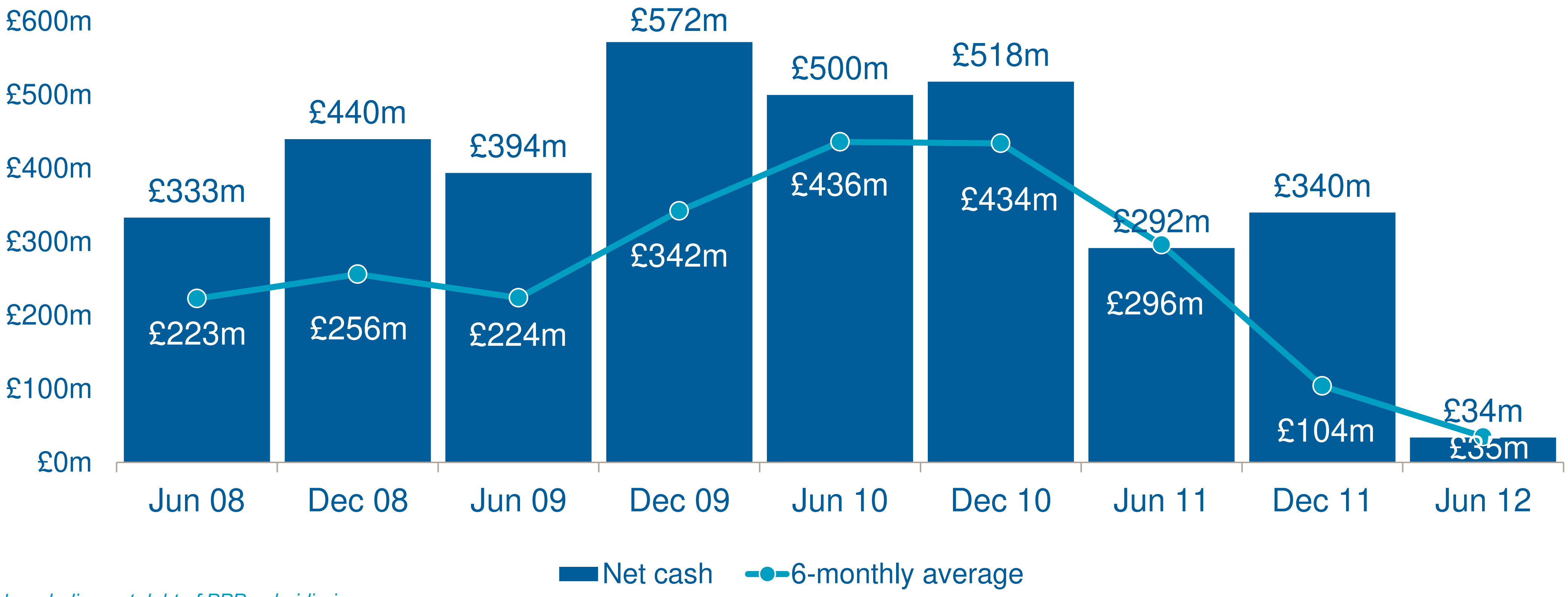
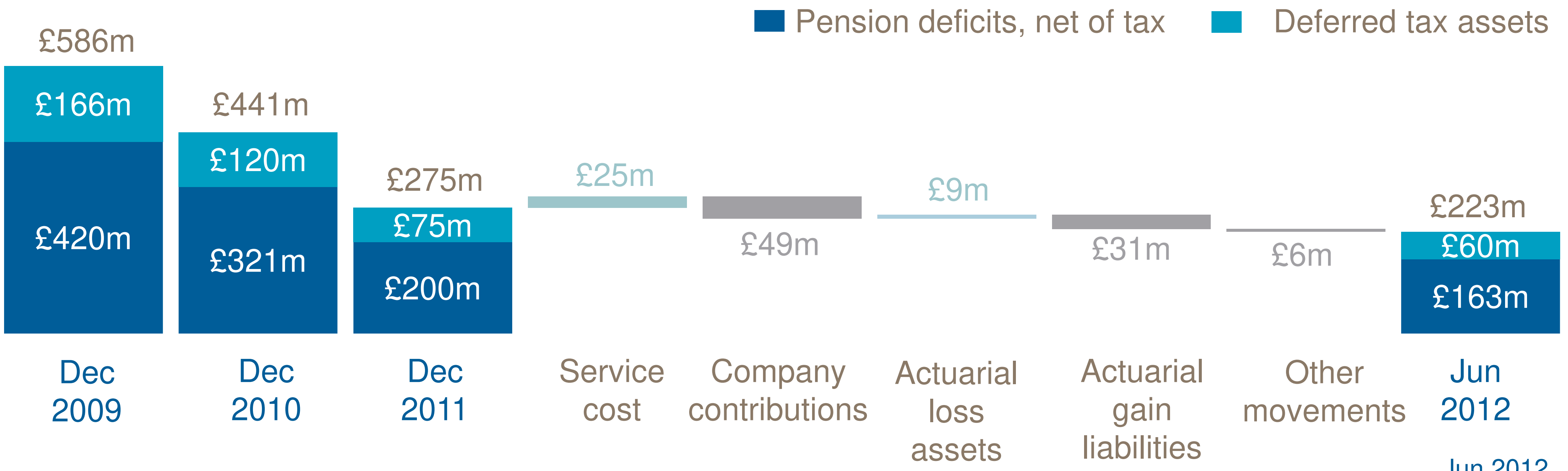
Net cash balances†

Impacted by working capital movements



† excluding net debt of PPP subsidiaries

Pensions – balance sheet movement
Continuing reduction in deficits



Cumulative contributions for deficit funding of £225m since December 2009

	Jun 2012
Net retirement benefit obligations	£163m
Available-for-sale mutual funds	£(52)m
Underlying net liability	£111m

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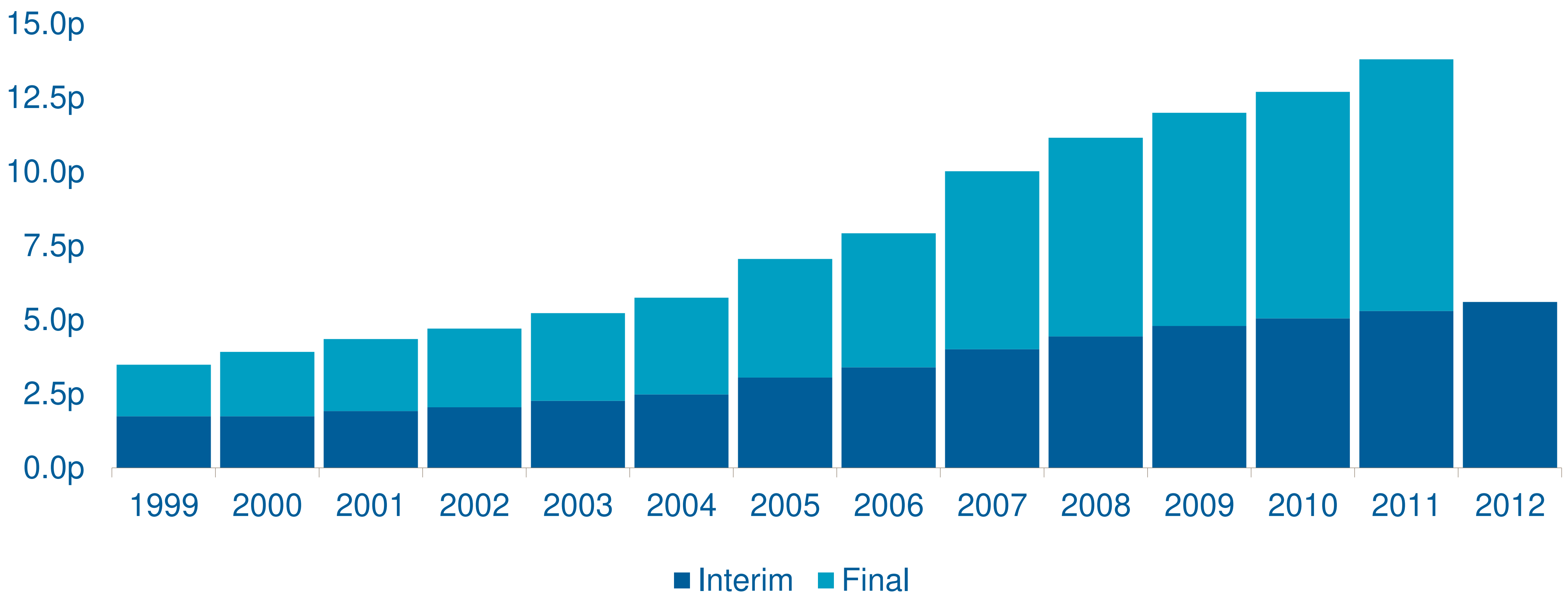
Dividends per share

6% growth in interim dividend



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Summary of first half 2012

- Order book at £15.0bn
- Good margin performance in Professional Services
- Crystallisation of investments value offsetting Construction and Support Services declines
- Cyclical cash reduction
- Pre-tax profit up 12% and EPS up 28%
- Interim dividend up 6%

IAN TYLER

Chief Executive Officer

Markets

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Transportation markets

- US Transportation Bill was authorised in July for a period of over two years
  - Visibility and security of funding should help some of the larger highways and transit projects
- Increased focus on fiscal stimulus from the UK and US governments
  - Little impact in the short term
- Certain governments continue to invest in transportation and other infrastructure as the backbone of future economic growth
  - Hong Kong, Middle East

Power markets

- UK power infrastructure
  - Need for investment undiminished
  - Projects held back by lack of clarity in energy policy
- Growing range of opportunities
  - North America, Australia, the Middle East and Africa
  - Both in generation and transmission
  - Across the public and private sectors

Social infrastructure markets

- UK market remains challenging
  - Reduction in public sector capital spend
  - Lack of private sector investment
- Patches of recovery in the US, but not a consistent trend

Strategy

Three stages of strategy

Immediate measures	• Efficiency • Crystallisation of value from investment assets
Medium-term strategy	• Industry verticals
Long-term view	• Growth in global infrastructure demand

Immediate measures
Efficiency

Phase 1

£30m savings by 2013

- Run-rate of £15m achieved by end-2011
- On track

Phase 2

£50m savings by 2015

- Good progress so far in 2012
- Rationalisation in UK construction
- Tactical cost reduction in Support Services
- Most of the savings to come through in 2013
- Initiatives in US operations and IT in 2013 and 2014

Immediate measures
Crystallisation of value from investment assets

	FY 2011	HY 2012	Total
Number of assets sold	2	2	4
Disposal proceeds (£m)	28	84	112
Gains on disposal (£m)	20	52	72
Directors' valuation (£m)	743	711	

- Disposals achieved lower discount rates than in Directors' valuation
- Expect to deliver annual gains of around £30m going forward
- Value of portfolio not expected to diminish

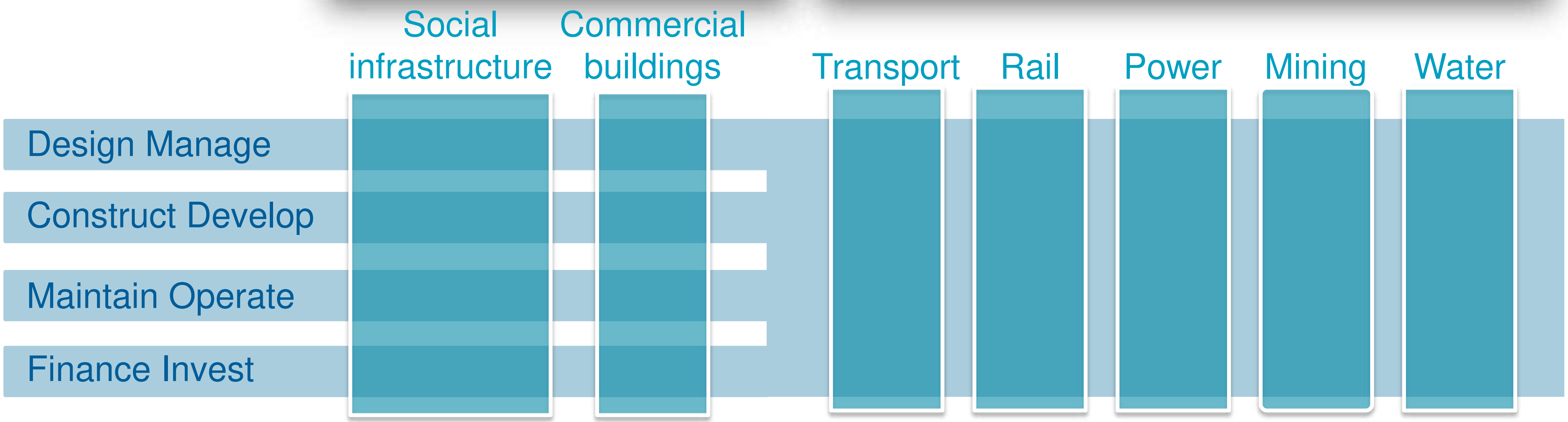
Immediate measures
Positioning for cyclical recovery

- Leaner, stronger operational model
- Margins underpinned by cost efficiency programmes in the near-term
- Strong and efficient balance sheet
- To seize the opportunities for profitable growth when cyclical recovery starts

Medium-term strategy
Industry verticals

Single-capability markets
- Single capability
- UK, US, Hong Kong
- Developed markets

Industry verticals
- Multi-capability
- Global
- Emerging markets



Medium-term strategy
Verticals in order book

Share in order book	Single-capability markets	Industry verticals
June 2012	39%	61%
2011	41%	59%
2009	57%	43%

Resources
Power
Rail
Roads and aviation

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Medium-term strategy
Transportation

- One of top three design and programme management businesses and a leading transportation contractor
- Extend professional services from client-side to delivery in the US
- Grow Canadian transportation business
- Consolidate highways in the UK
- Develop presence in aviation

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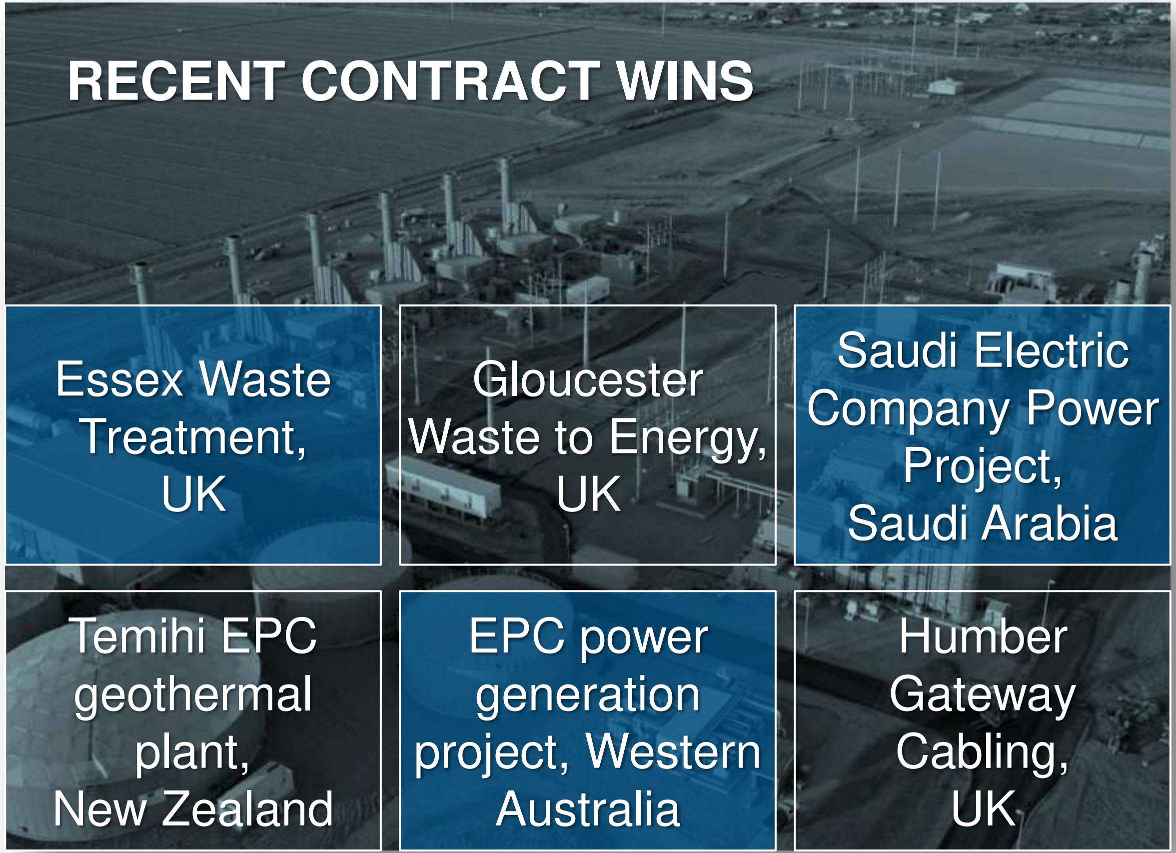
Medium-term strategy
Rail

- Global presence in design, delivery and maintenance
- Operations in 23 countries
- Align capabilities across the world
- Deliver fundamentally better solutions to customers by combining capabilities

Medium-term strategy
Power

- Take full advantage of the upcoming investment in the UK over the next 10 years
- Leverage global power design and engineering capability in key geographies around the world
- Extend EPC capabilities progressively in the power sector
- Develop sustainable businesses in key markets to drive value from specialist power transmission skills



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Medium-term strategy
Water and Mining

- Develop delivery capability in US water and leverage capabilities nationally
- Develop mining business in Australia to bring together all our skills in infrastructure delivery and operation, including power and rail

Long-term view

totalpolitics

"Infrastructure matters because it is the magic ingredient in so much of modern life . . . it is the invisible thread that ties our prosperity together"

David Cameron, 19 March 2012

americanmanufacturing.org

"Infrastructure shouldn't be a partisan issue".

President Obama, 30 April 2012

FIRSTPOST.

"Investment in infrastructure is necessary as means of stimulating global growth . . . It lays the foundation for rapid growth in the longer term while providing an immediate stimulus for their economies and also for the global economy by providing a robust sources of demand".

Manmohan Singh india's PM, June 2012, after the G20 released the Los Cabos declaration

Conclusion

- Solid set of results
- Financial performance underpinned by cost savings and asset disposals
- Medium-term strategy to increase exposure to higher growth sectors and geographies
  - Drive performance in key industry verticals
  - Develop new geographies, deploying collective group capabilities
- Well placed to benefit from the long-term global trend for growth

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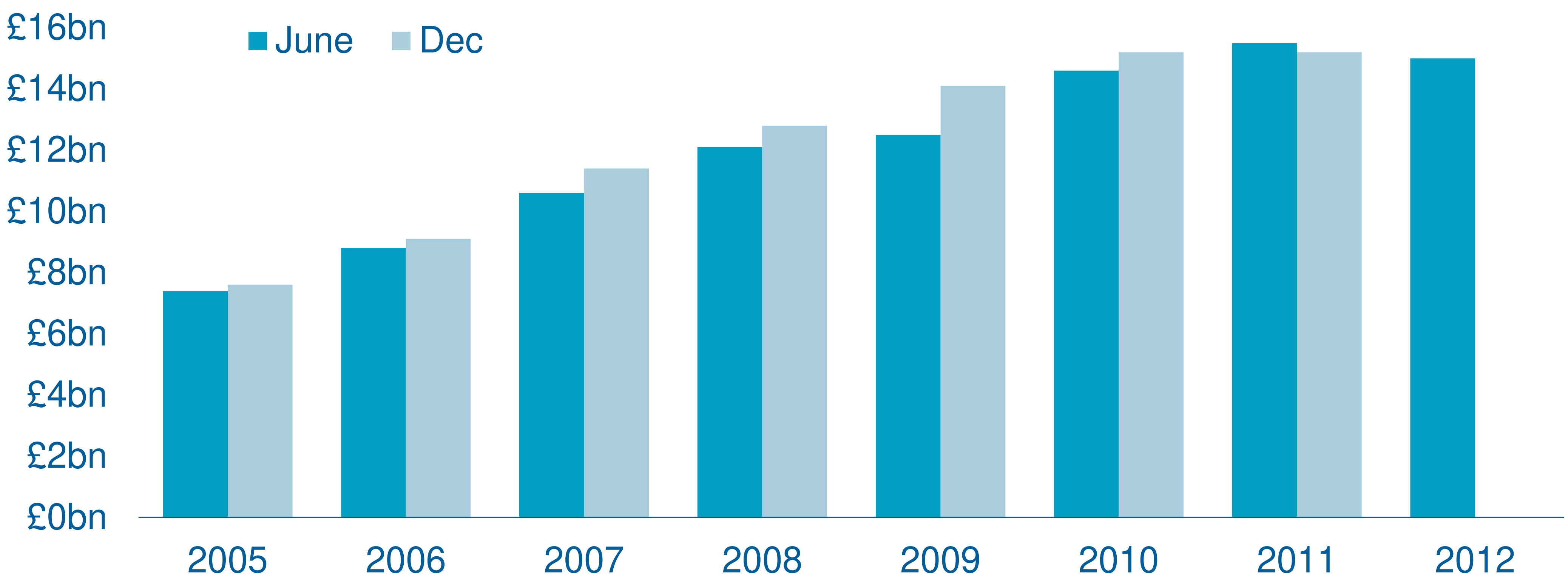
APPENDIX

Order book



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Performance by sector

FY 11	£m	HY 2012	HY 2011
87	Professional Services	42	38
169	Construction Services	53	67
67	Support Services	10	25
43	Infrastructure Investments	67	22
(35)	Corporate costs	(16)	(16)
331	**Profit from operations***	**156**	**136**
3	Net finance (cost)/income	(2)	2
334	**Pre-tax profit***	**154**	**138**

** from continuing operations, before non-underlying items*

Pensions charge

FY 11	£m	HY 2012	HY 2011
	Defined benefit schemes:		
52	P&L charge – service cost	25	27
(2)	P&L credit – past service gain	(2)	-
(143)	Expected return on assets	(68)	(72)
146	Interest cost on scheme liabilities	68	73
3	Net finance charge	-	1
53	Net pension charge	23	28
	Defined contribution schemes:		
55	P&L charge	29	27
108	**Total charge**	**52**	**55**

Group balance sheet

£m	June 2012	Dec 2011	June 2011
Goodwill and intangible assets	1,487	1,518	1,523
Current assets#	2,333	2,154	2,180
Current liabilities and provisions#	(3,091)	(3,239)	(3,297)
Working capital#	(758)	(1,085)	(1,117)
Net cash (excluding PPP subsidiaries)	34	340	292
PPP subsidiaries – financial assets	521	457	351
PPP subsidiaries – non-recourse net borrowings	(352)	(332)	(294)
Retirement benefit obligations (net of tax)	(163)	(200)	(240)
Other assets	913	973	1,031
Other liabilities	(430)	(412)	(332)
Shareholders' funds	**1,252**	**1,259**	**1,214**

excluding cash/borrowings, tax and derivatives

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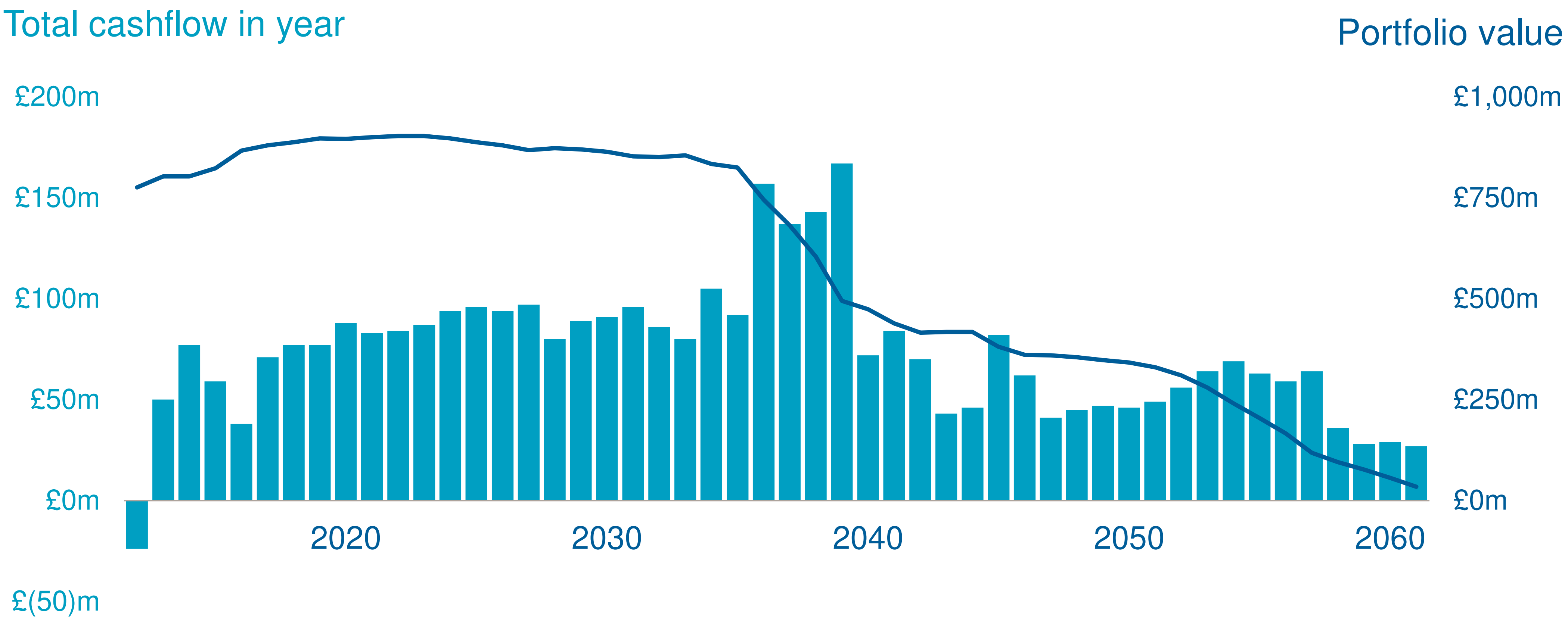
Balance sheet cash movement

£m	HY 2012	HY 2011
Opening net cash†	340	518
Cash used in operations	(289)	(116)
Dividends from JVs and associates	32	27
Capital expenditure and financial investment	(33)	(56)
Acquisitions and disposals (net of net cash acquired)	(3)	(58)
Dividends, interest and tax paid	(8)	(19)
Exchange adjustments	(2)	(3)
Other items	(3)	(1)
Closing net cash†	**34**	**292**
PPP subsidiaries non-recourse net debt	(352)	(294)
Closing net debt	(318)	(2)

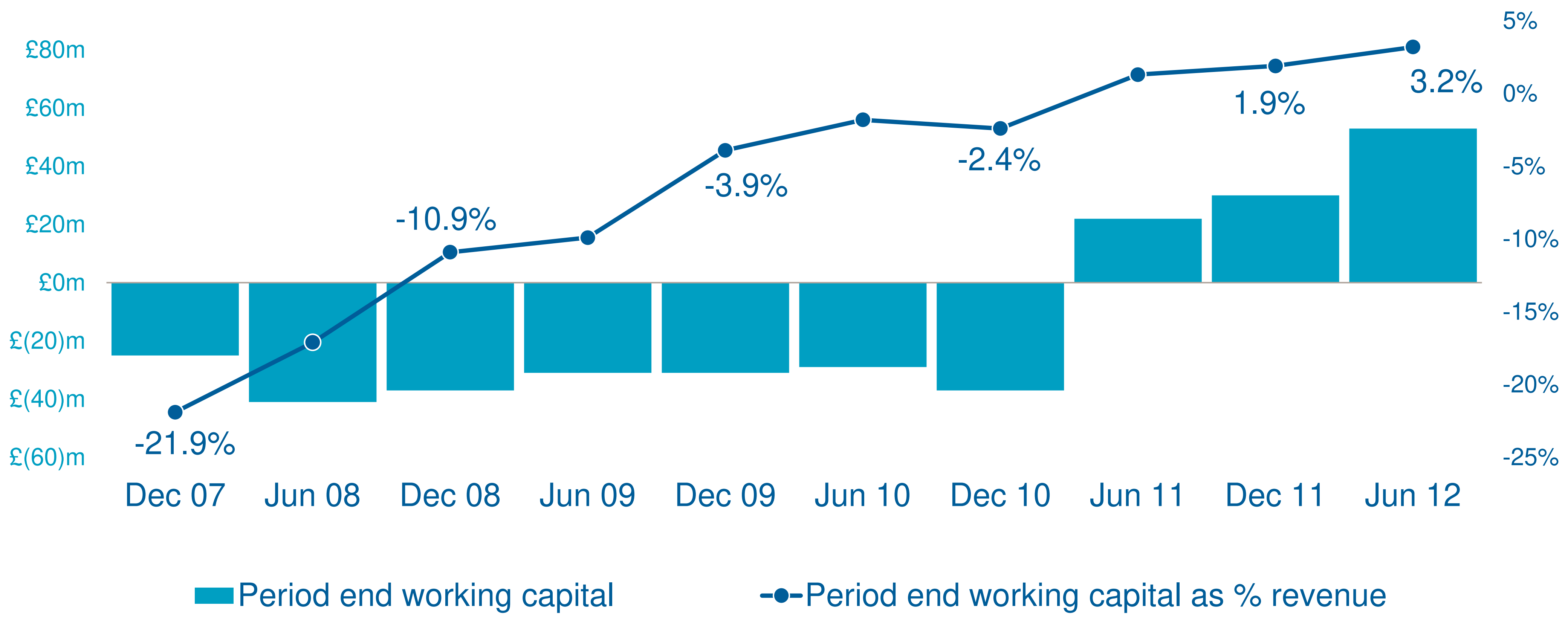
† treating PPP subsidiaries as joint ventures/associates

PPP portfolio over time

Cashflow and value



Working capital – Professional Services
Continuing on trend to 5% of revenue



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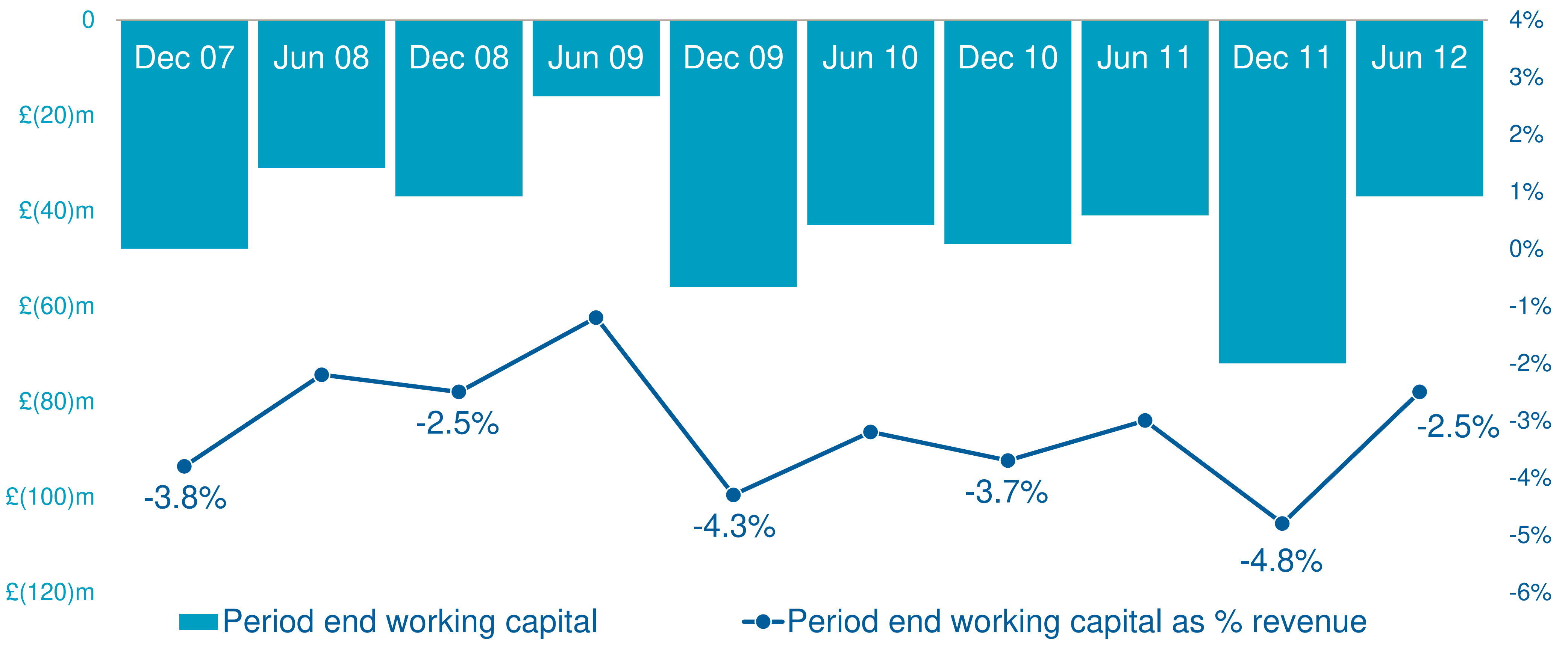
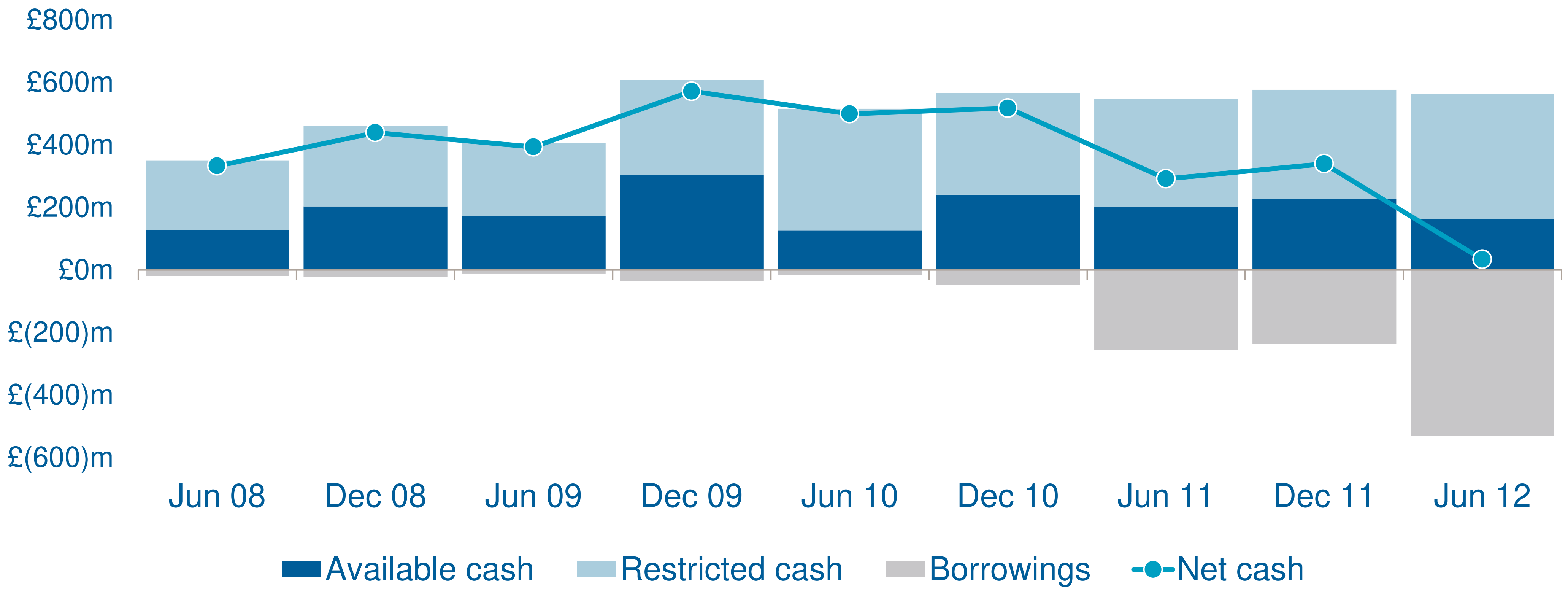
Working capital – Support Services

Slightly negative - impacted by contract cycles



Analysis of net cash balances†

Mixture of available and restricted cash



† excluding net debt of PPP subsidiaries

Available funds
Strong headroom