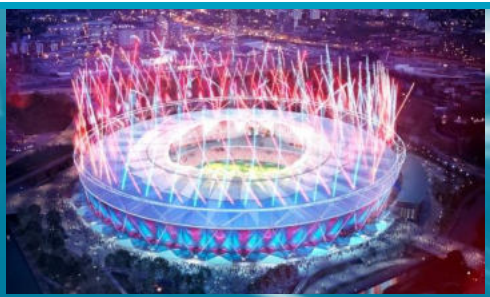
Balfour Beatty

2013 half-year results presentation

14 August 2013



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ANDREW McNAUGHTON

Chief Executive Officer

Opening remarks

- Took over as CEO in March
- A number of headwinds in the UK and Australia
- Actions delivering results
- Still focused on longer term objectives

DUNCAN MAGRATH

Chief Financial Officer

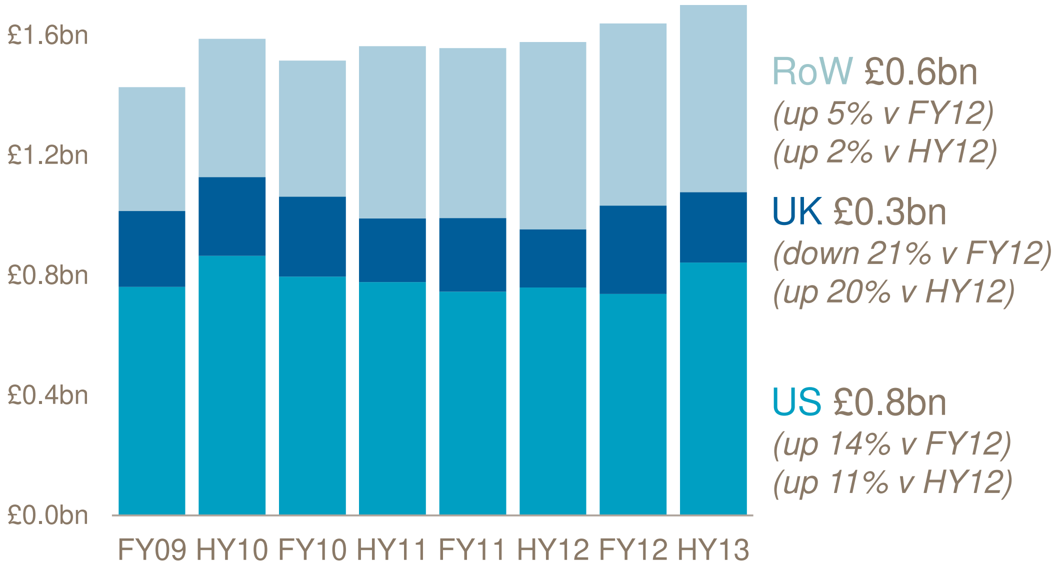
Headline underlying numbers from continuing operations
Difficult H1 trading

	HY 2013	HY 2012	Actual growth	Constant currency
Revenue including JVs & assoc*	£4,967m	£5,099m	-3%	-4%
Profit from operations*	£52m	£156m	-67%	-67%
Pre-tax profit*	£45m	£150m	-70%	
Underlying EPS*	6.3p	18.7p	-66%	
Interim dividend	5.6p	5.6p	-	
Average (borrowings)/cash	£(298)m	£35m		
Net (borrowings)/cash (exc PPP)	£(189)m	£34m		
Directors' valuation of PPP	£719m	£711m		

	HY 2013	FY 2012		
Order book*	£13.9bn	£13.5bn	+3%	+0%

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

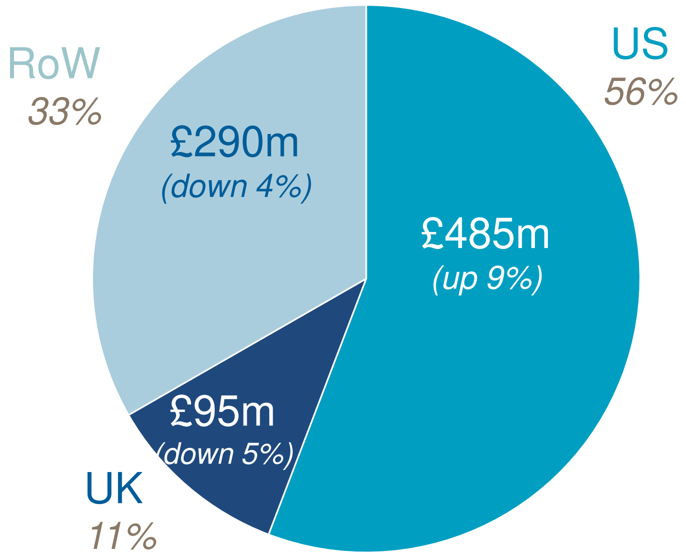
Professional Services – HY 2013 by geography
Overall steady growth in orders and revenue



Order book

£1.7bn

(up 5% v FY12: £1.6bn)
(up 9% v HY12: £1.6bn)



Revenue

£870m up 3%

(HY12: £845m)

Percentage changes relative to HY12

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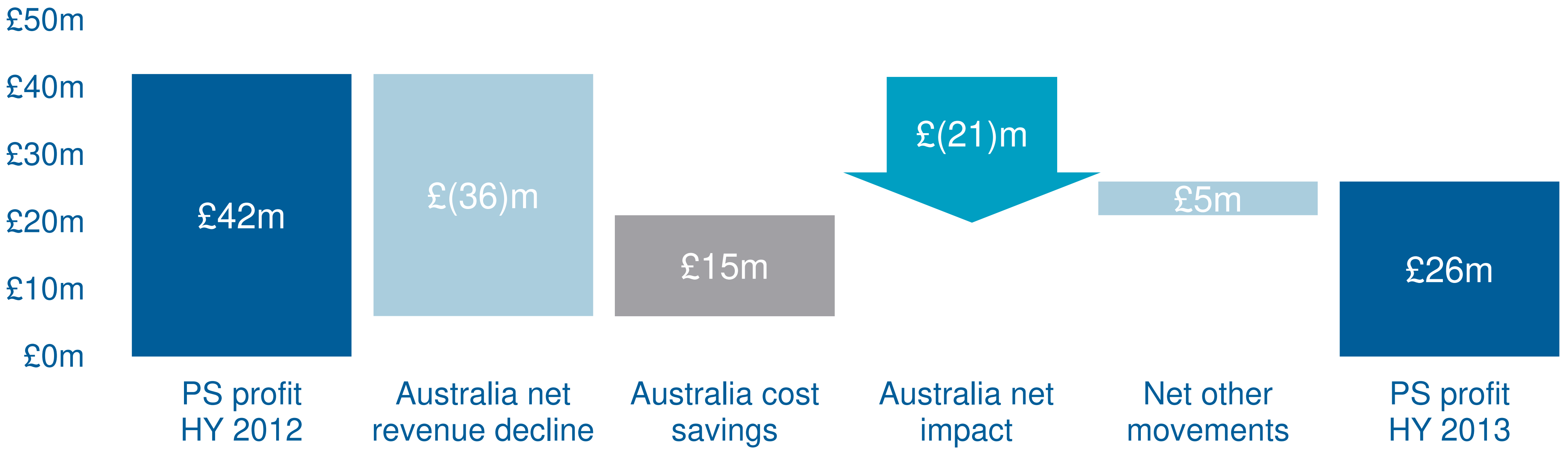
Professional Services

FY 2012		HY 2013	HY 2012	Actual growth	Constant currency
£1.6bn	Order book	£1.7bn	£1.6bn	+9%	+7%
£1,668m	Revenue	£870m	£845m	+3%	+2%
£98m	Profit*	£26m	£42m	-38%	-38%
5.9%	Margin %	3.0%	5.0%		

** before non-underlying items*

- 90% reduction in planned mining programmes leading to tough market in Australia
- Good US transportation performance, some delay in power projects coming to market
- Successful “go live” of shared service centre
- Canada – positive transportation trends offsetting weaker building market
- Good growth in the Middle East
- Strong performance in Hong Kong, Singapore and China

Professional Services
Impact of Australia market downturn on global PS profit



£(67)m **£43m** **£(24)m**

Estimated full year impact of Australia

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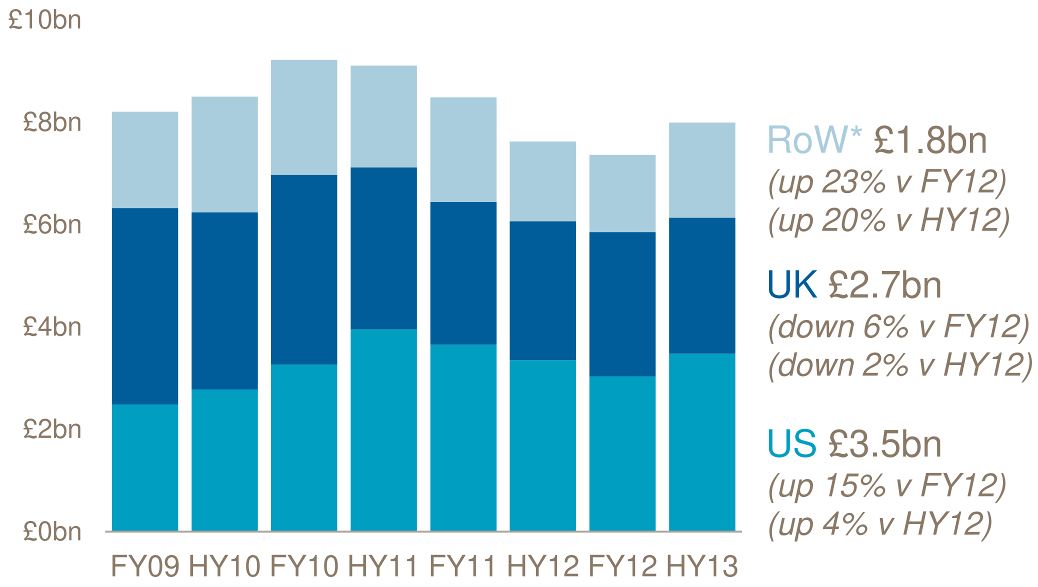
Construction Services – HY 2013 by geography
UK revenue decline as expected, US gradual pickup

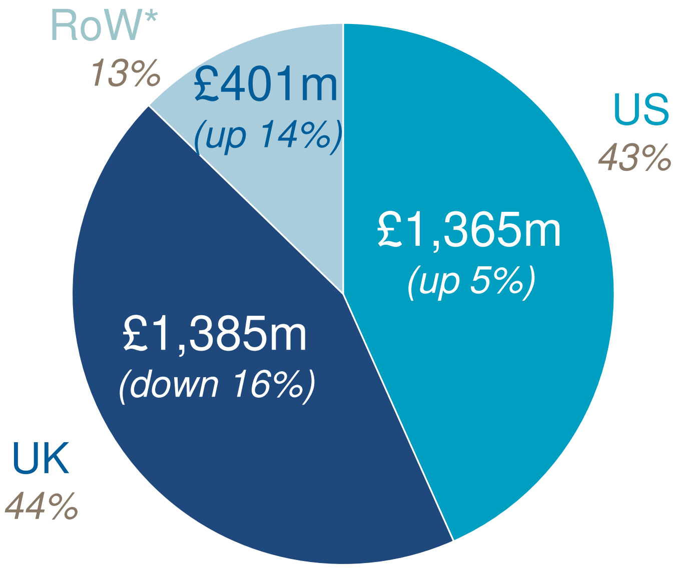


Order book*

£8.0bn

(up 9% v FY12: £7.4bn)

(up 5% v HY12: £7.7bn)



Revenue*

£3,151m down 5%

(HY12: £3,303m)

Percentage changes relative to HY12

** from continuing operations, except FY11 and earlier figures for RoW*

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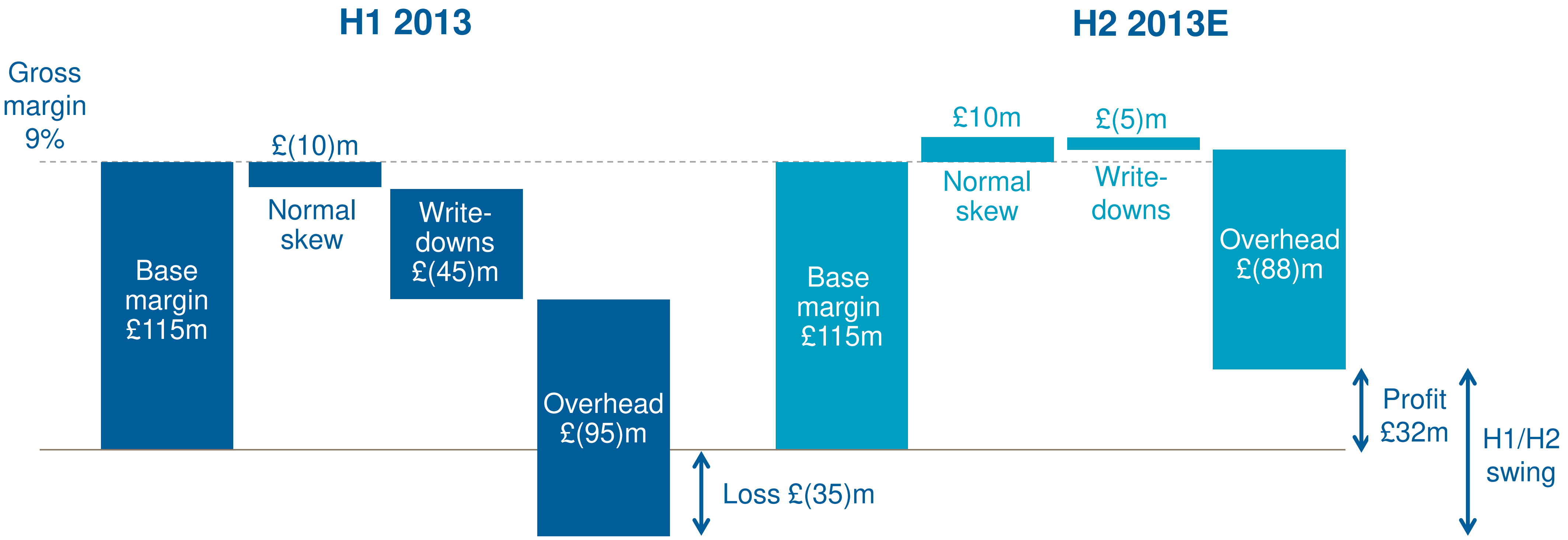
Construction Services

FY 2012		HY 2013	HY 2012	Actual growth	Constant currency
£7.4bn	Order book*	£8.0bn	£7.7bn	+5%	+3%
£6,511m	Revenue*	£3,151m	£3,303m	-5%	-6%
£119m	(Loss)/profit*	£(41)m	£59m		
1.8%	Margin %	(1.3)%	1.8%		

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

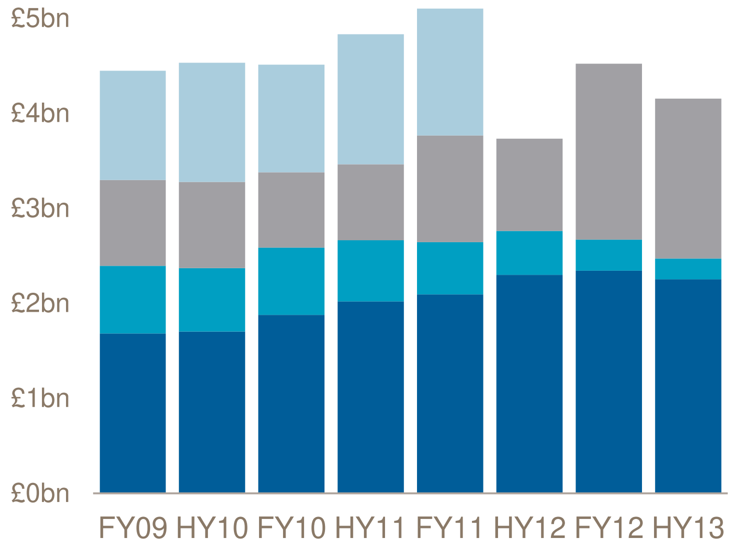
- Poor performance in UK construction, management changes implemented
- Continuing delays in UK power market hampering major projects new work
- Overall H2 2013 assumed to recover to levels of profitability of H2 2012
- US – increasing revenue momentum
- Dubai – market recovering, new prospects arising
- Hong Kong – market still positive, some project delays

Construction Services UK
Illustrative profit skew

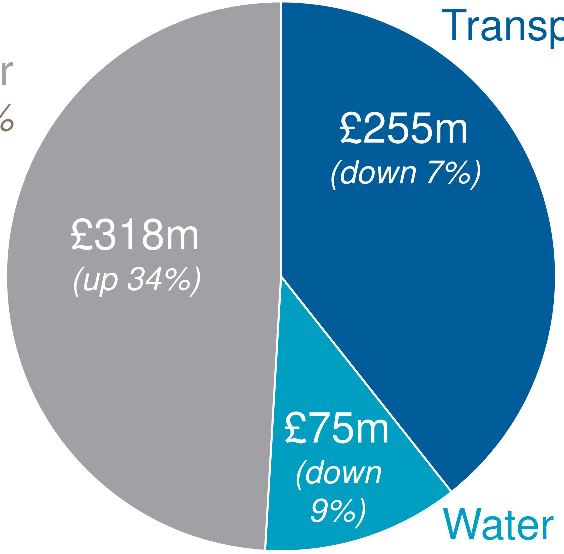


Figures exclude UK rail construction projects and corporate overhead allocation

Support Services – HY 2013 by market
Strong revenue growth in power transmission



Order book*
£4.2bn
(down 8% v FY12: £4.5bn)
(up 11% v HY12: £3.7bn)



Revenue*
£648m up 9%
(HY12: £593m)

Percentage changes relative to HY12

Building includes business services outsourcing and facilities management
Transport includes highways management and rail renewals
** from continuing operations, except FY11 and earlier figures for Building*

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Support Services

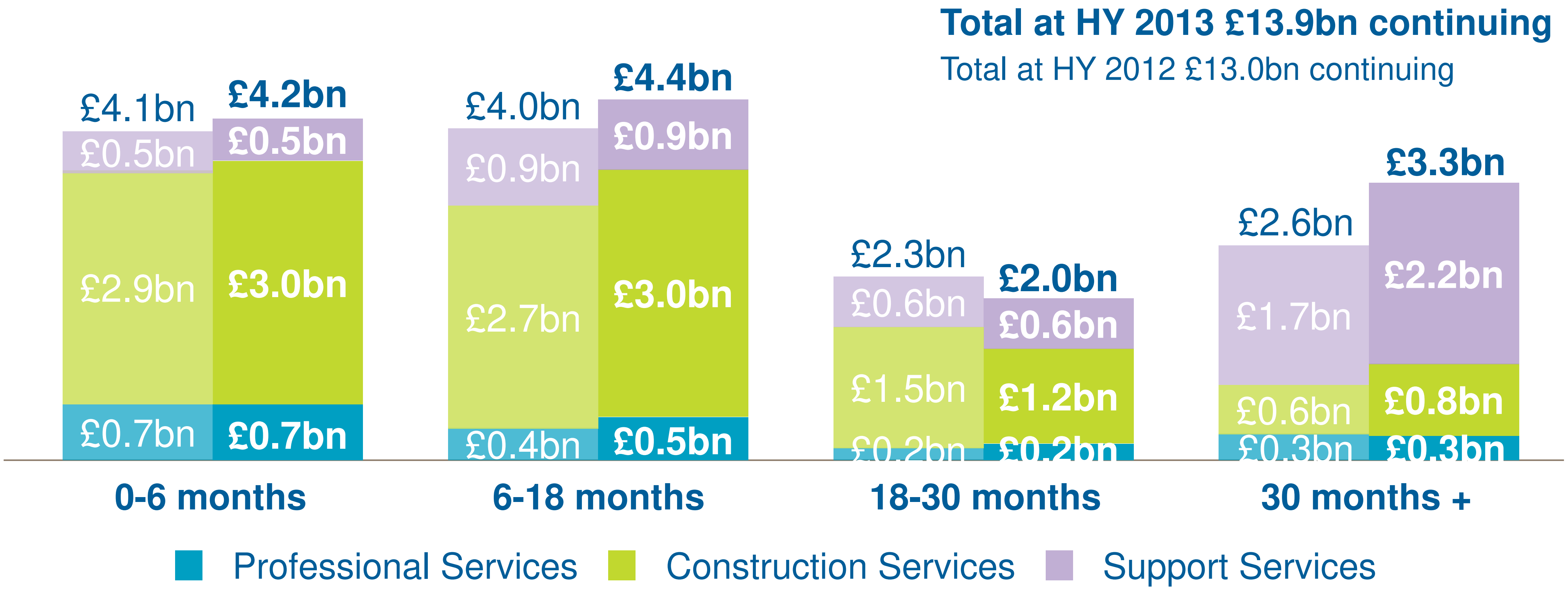
FY 2012		HY 2013	HY 2012	Actual growth	Constant currency
£4.5bn	Order book*	£4.2bn	£3.7bn	+11%	+11%
£1,151m	Revenue*	£648m	£593m	+9%	+9%
£30m	Profit*	£17m	£4m	+325%	+325%
2.6%	Margin %	2.6%	0.7%		

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

- Good revenue and profit performance in power transmission
- Reduced revenue in water, but strong start to work winning for AMP6 cycle
- Stable rail revenues
- Good pipeline of local authority work, revenue down due to timing of 2013 contract wins and 2012 losses

Order book position compared with a year ago

Near-term improvement in US construction



In each series group, left-hand column represents the order book as at 29 June 2012, and the right-hand column as at 28 June 2013

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Infrastructure Investments
Continued strong earnings performance

FY 12	£m	HY 2013 Group	HY 2013 JVs & assoc	HY 2013 Total	HY 2012 Group	HY 2012 JVs & assoc	HY 2012 Total
37	PPP UK/Singapore	1	12	13	1	19	20
18	PPP US	11	4	15	9	4	13
(4)	Infrastructure	(1)	-	(1)	(2)	(1)	(3)
(4)	Fund	(2)	-	(2)	(3)	-	(3)
(30)	Bidding costs and overheads	(7)	-	(7)	(12)	-	(12)
17	Pre-disposals operating profit*	2	16	18	(7)	22	15
52	Gain on disposals	45	-	45	52	-	52
69	**Investments operating profit***	**47**	**16**	**63**	**45**	**22**	**67**
24	*Subordinated debt interest income*			*13*			*11*
4	*PPP subsidiaries' net interest*			*2*			*2*
97	**Investments pre-tax result***			**78**			**80**
91	*Investments post-tax result**			*70*			*75*

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

Infrastructure Investments

- Achieved financial close on
  - Edinburgh University and Aberystwyth University student accommodation projects (July 2013)
  - Iowa University and University of Nevada, Reno (August 2013) student accommodation projects
  - Northern Group military housing for US Air Force (August 2013)
  - Energy-from-waste facility in Gloucestershire but planning delays
- Appointed preferred bidder on
  - Gwynt y Môr offshore transmission (“OFTO”) project (July 2013)
  - University of West Florida mixed-use development (August 2013)
- Remain preferred bidder on
  - Thanet & Greater Gabbard OFTO projects
  - ACC Group III military housing for US Air Force
- Directors’ valuation at £719m, after disposals of £81m
- Reached first close on Infrastructure Fund

PPP portfolio valuation movements – HY 2013

Valuation stable, despite £97m net distributions

£m			
Valuation as at December 2012			734
Cash invested		12	
Cash received – distributions	(28)		
– disposals	(81)	(109)	
	Net cash received		(97)
Unwind of discount on NPV			36
New project wins			2
Disposal gains, operational gains + FX			44
Valuation as at June 2013			**719**

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Group profit skew

£m	H2 2012	H1 2013	H2 2013 trading v H2 2012	Comments
Professional Services	56	26		Further Australia weakness – however likely claim upside
Construction Services	60	(41)		Improved operational performance – should revert to last year's H2
Support Services	26	17		Steady underlying growth + cost savings
Infrastructure Investments	2	63		Possible financial close upsides
Corporate costs	(16)	(13)		
Profit from operations	**128**	**52**		

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

Net finance cost

Increase in interest payable with 3 months US PP

FY 12	£m		HY 2013	HY 2012
24	PPP subordinated debt interest receivable		13	11
	PPP interest on financial assets	16		
4	PPP interest on bank loans and overdrafts	(14)	2	2
(9)	Net finance costs – pension schemes		(6)	(5)
	Other interest receivable	4		
(14)	Other interest payable	(14)	(10)	(8)
(12)	Preference shares finance cost		(6)	(6)
(7)	**Net finance cost***		**(7)**	**(6)**

** from continuing operations*

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Non-underlying items

£m	
Restructuring and reorganisation costs relating to Australia	(5)
Restructuring and reorganisation costs relating to other existing businesses	(27)
Post-acquisition integration, reorganisation and other costs	(1)
Cost of implementing UK shared service centre	(2)
Other non-underlying items*	**(35)**
Amortisation of acquired intangible assets*	(16)
Non-underlying items before tax*	**(51)**
Tax on non-underlying items*	16
	(35)

** from continuing operations*

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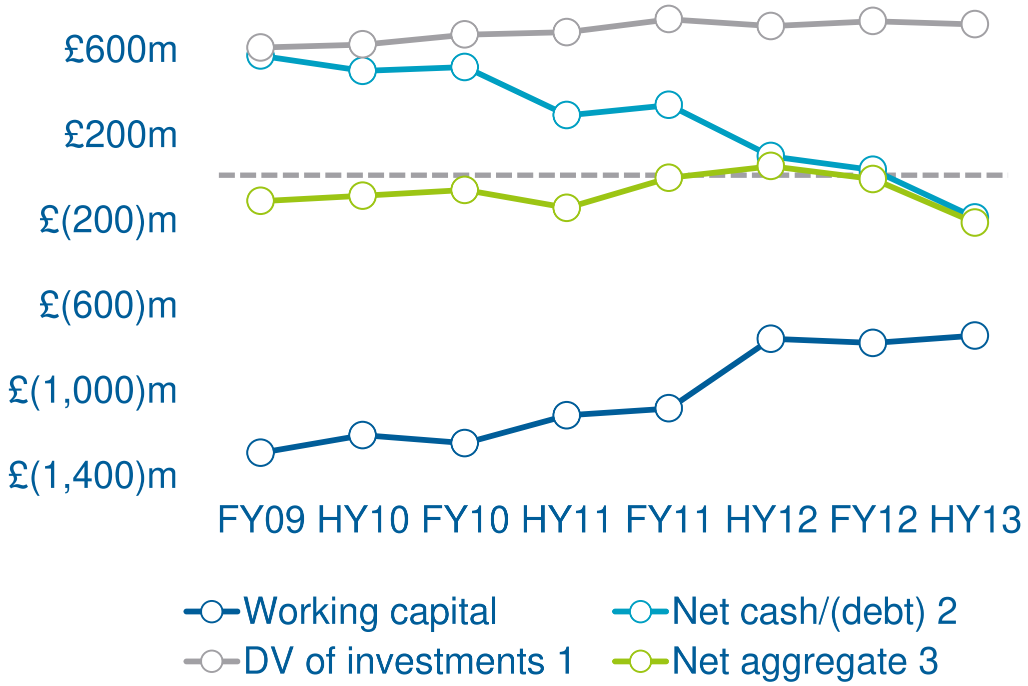
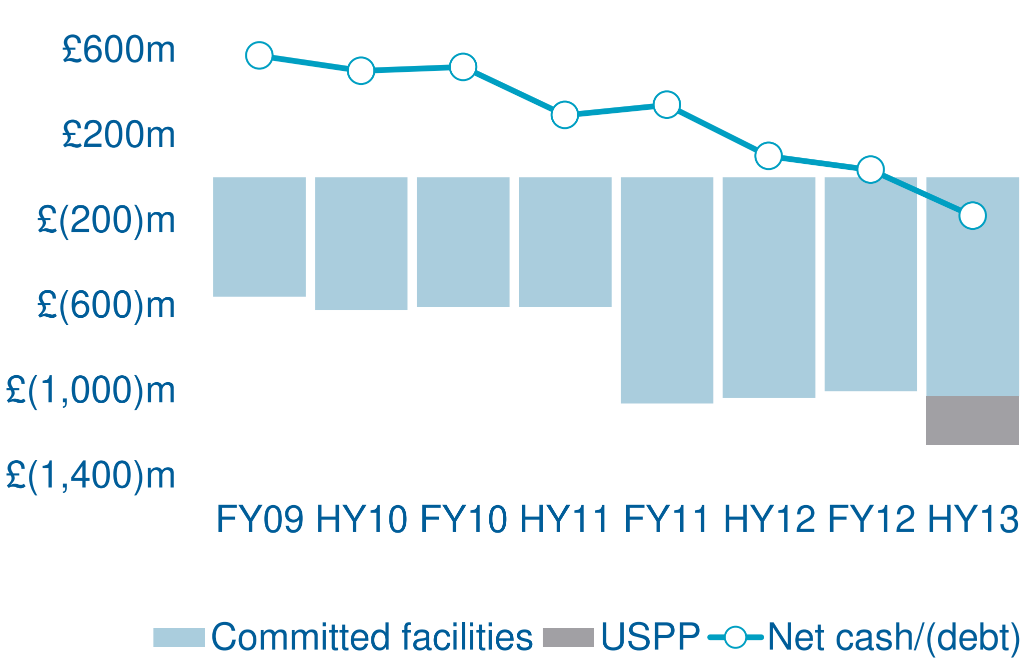
Managing the balance sheet
Facilities and cash/debt have flexed as working capital reduced

Maintaining strength



[1] *Directors' valuation of PPP concessions*
[2] *excluding net debt of PPP subsidiaries (non-recourse)*
[3] *aggregate of Directors' valuation of PPP concessions, net cash/(debt) and working capital*

Maintaining liquidity



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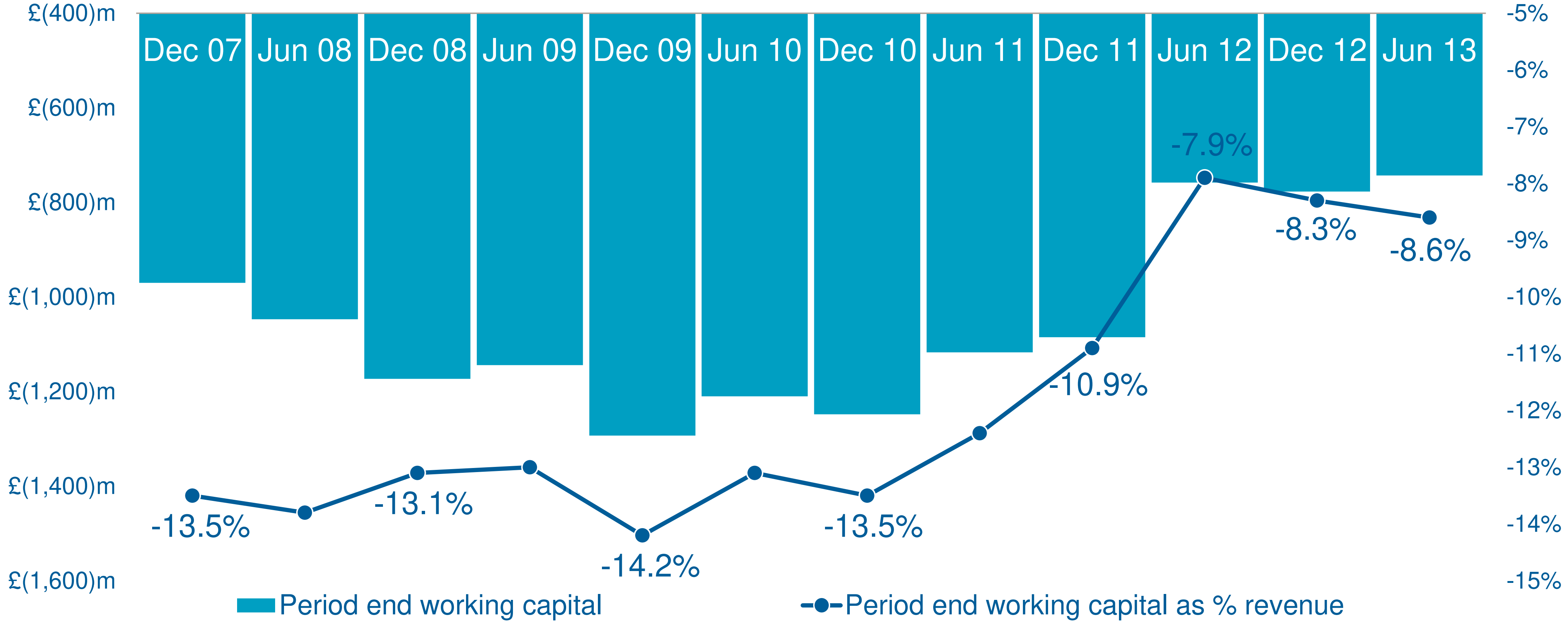
Working capital – Group
Impacted by revenue drop in Construction Services



December 2012 and earlier figures include 2013 discontinued operations

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Net debt movement

£m	HY 2013	Full-year expectation
Change in working capital	(153)	c£200m FY working capital outflow guidance maintained
Depreciation less net capex	5	Should remain broadly neutral
Pension deficit payments	(37)	H2 deficit payments similar to those in H1
Tax, interest and dividend payments	(11)	H2 has £102m of ord and pref dividend payments
PPP asset disposal proceeds	81	No committed H2 disposals
less gains included in profit	(45)	No committed H2 disposals
Investment in PPP projects	(12)	H2 £47m investment, if close Thanet and Greater Gabbard
Dividend receipts	13	H2 £30m receipts
Other	(36)	H2 c.£50m cash outflow
Cash movements	(195)	
Group operating loss*	(29)	
Total cash flow*	(224)	
Opening cash/(net debt)	**35**	
Closing cash/(net debt)*	**(189)**	

** from continuing operations*

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Balance sheet and headroom

£m	HY 2013	FY 2012
Net cash/(debt) excluding PPP subsidiaries	(189)	35
Less: restricted cash	(356)	(340)
available cash	(175)	(177)
other borrowings/items	-	72
US private placement	230	-
Borrowings under committed facilities	(490)	(410)
Main committed facilities available to 2016*	950	950
Liquidity headroom	**460**	**540**
Net debt to EBITDA (3.0x limit)	0.76x	-
Covenant headroom	**536**	**1,100**

** excludes other committed facilities totalling £79m (FY 2012 £55m)*

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Summary of first half 2013

- Order book for continuing business at £13.9bn
- PS stable, but adverse impact from downturn in Australia
- Poor performance in UK construction; management action taken
- Good growth prospects for Support Services
- Investments providing a continuing source of value, strong H1 execution
- Balance sheet strength, comfortable headroom
- Interim dividend maintained despite reduced profitability

ANDREW McNAUGHTON

Chief Executive Officer

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Agenda

- Operational developments
  - Actions to strengthen the business in the UK and Australia
  - Update on the USA
  - Update on disposals
- Strategic initiatives
  - Continuing to grow business in infrastructure and in attractive growth markets

UK construction business

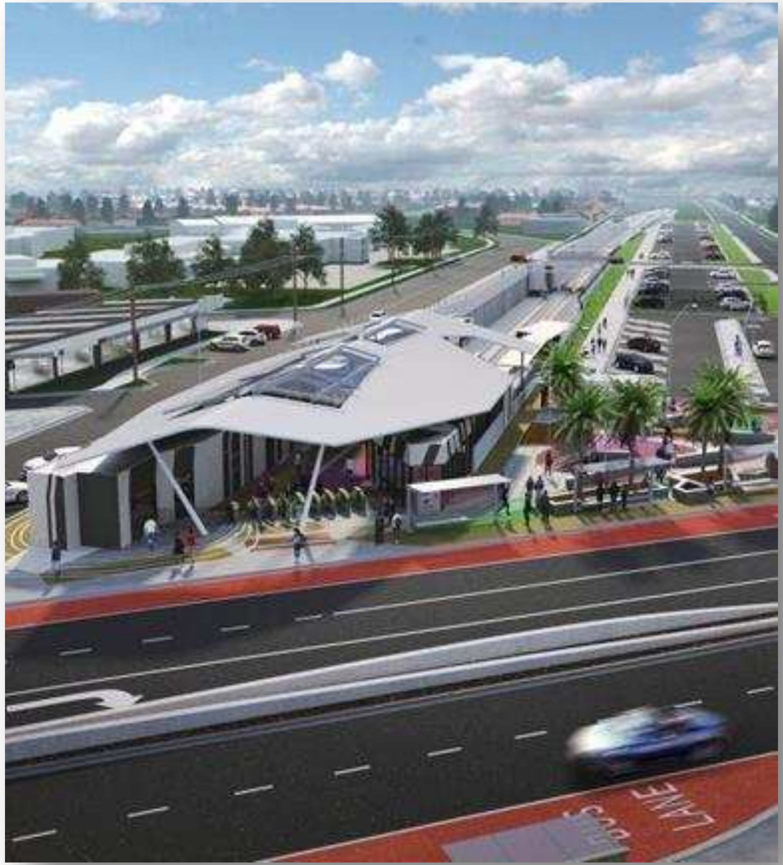
- £50m profit shortfall
  due to operational issues
- Difficult market conditions
- Disruption caused by
  restructuring programme
- Plan of action
  - ➔ Bolster bench strength
  - ➔ Focus on key customers

Improving strength of UK construction business

- Closed regional units with weak future prospects
- Appointed new CEO of UK construction
- Aligning organisation more closely with customers
- Delivering the intended results
  - Regional business improving
  - Major projects outcome less immediate
- 2013 targets deliverable

Taking swift action in Australia

- Significant reduction in workforce
- Using flexible employment options
- Solutions to save property costs
- Pushing ahead with country model
- Taking advantage of strategic opportunities such as government outsourcing



Actions taken in the USA underpinning our progress

- Made the right geographical choices for the right strategic reasons
  - HSW in the NW and SpawMaxwell in Houston
- Made efficiency improvements
- Invested in innovation
  - Capability Centre and ‘Lean delivery’
- Expecting market share gain and revenue growth in the second half and in 2014
- On track for good profit growth in 2015

Divesting of Mainland European rail businesses

- Advanced discussions to sell the Swedish business to a trade buyer
- Work on finding new owners for the German and in time, Italian businesses

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Growing our businesses in target sectors and geographies

Share in order book	Single-capability markets	Economic infrastructure
2013 H1	**33%**	**67%**
2012	**37%**	**63%**

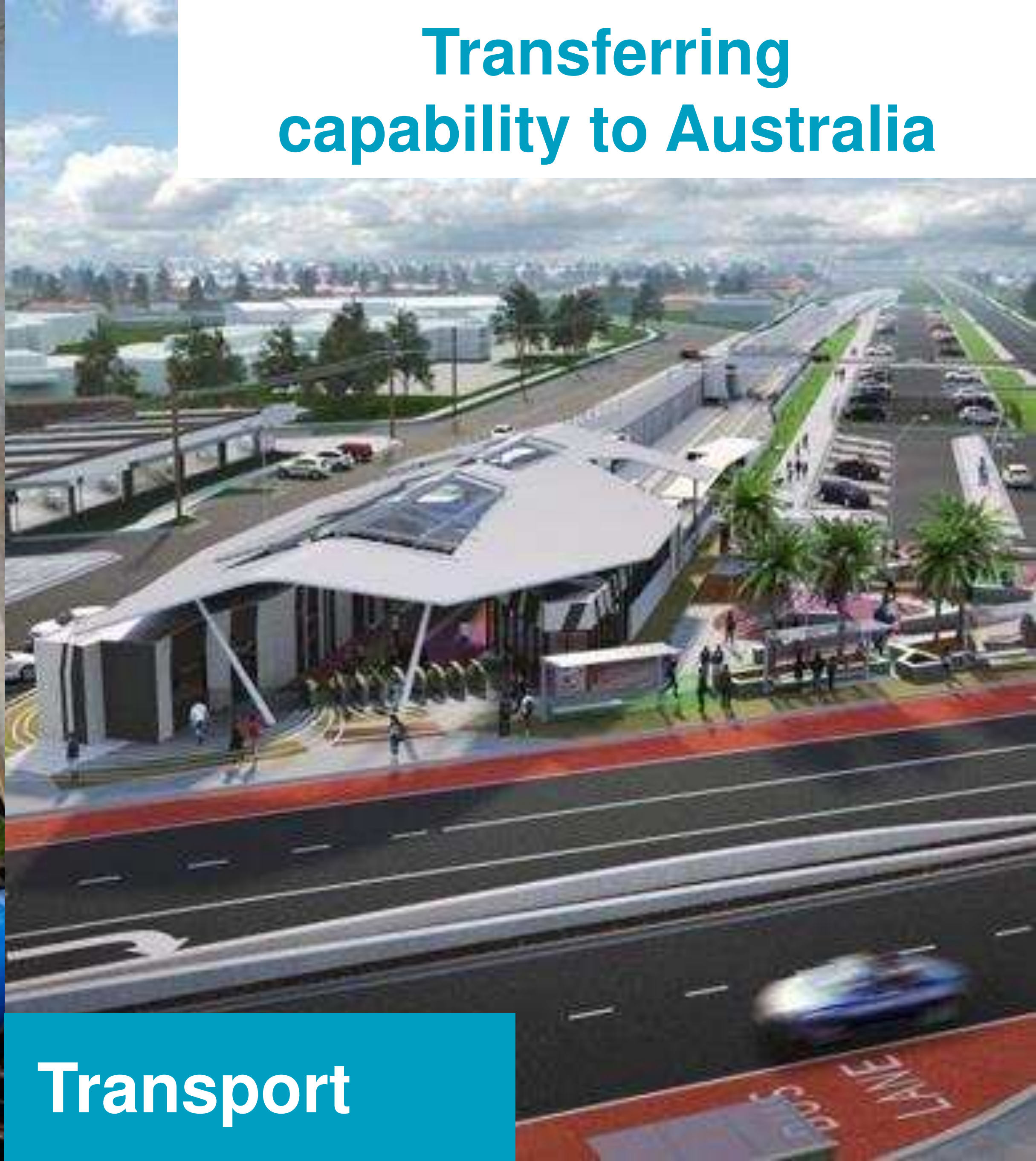
Adjusted to reflect continuing operations

Winning work

In target sectors and geographies

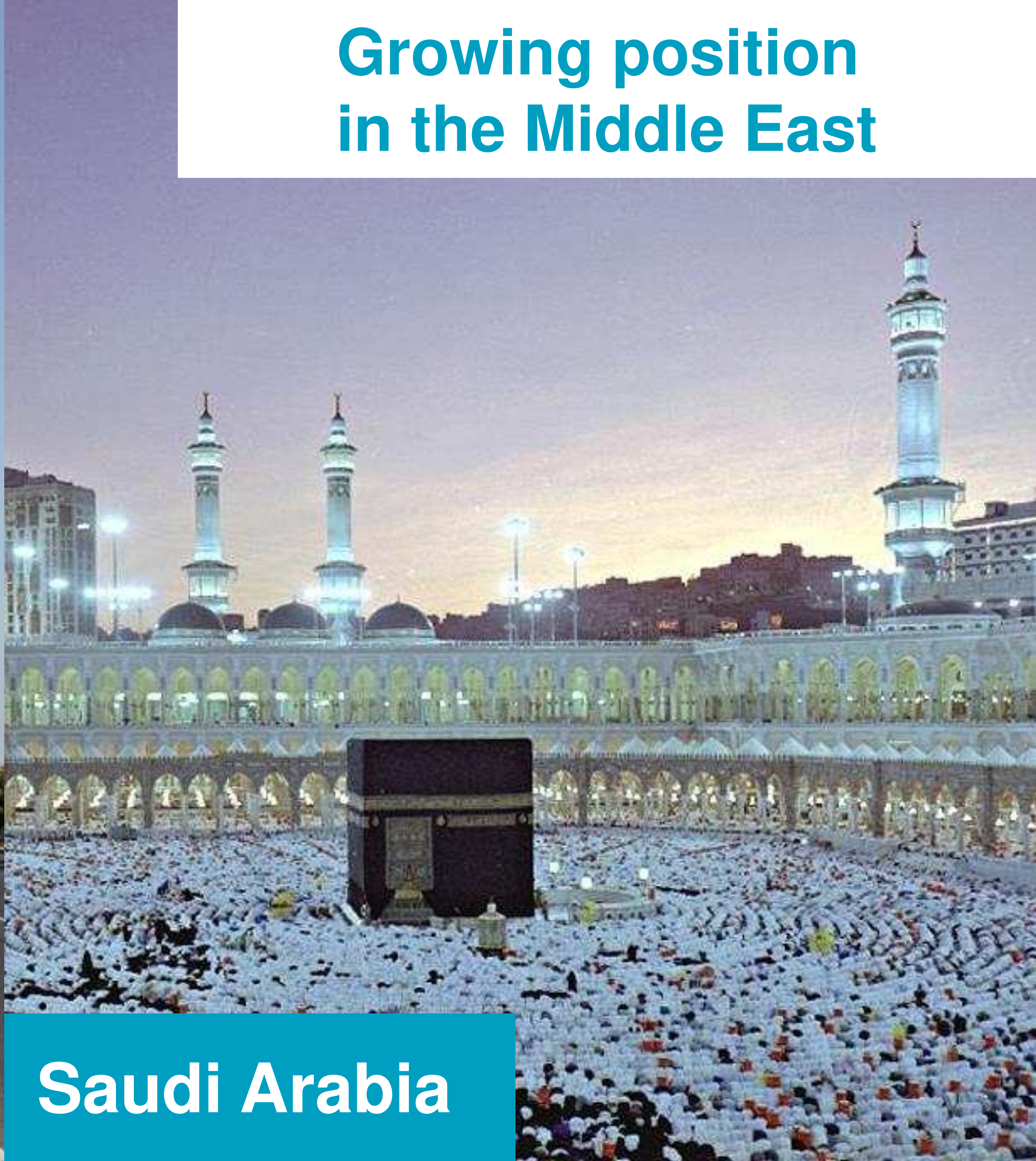
Transferring capability to Australia

Water



Transport

Growing position in the Middle East

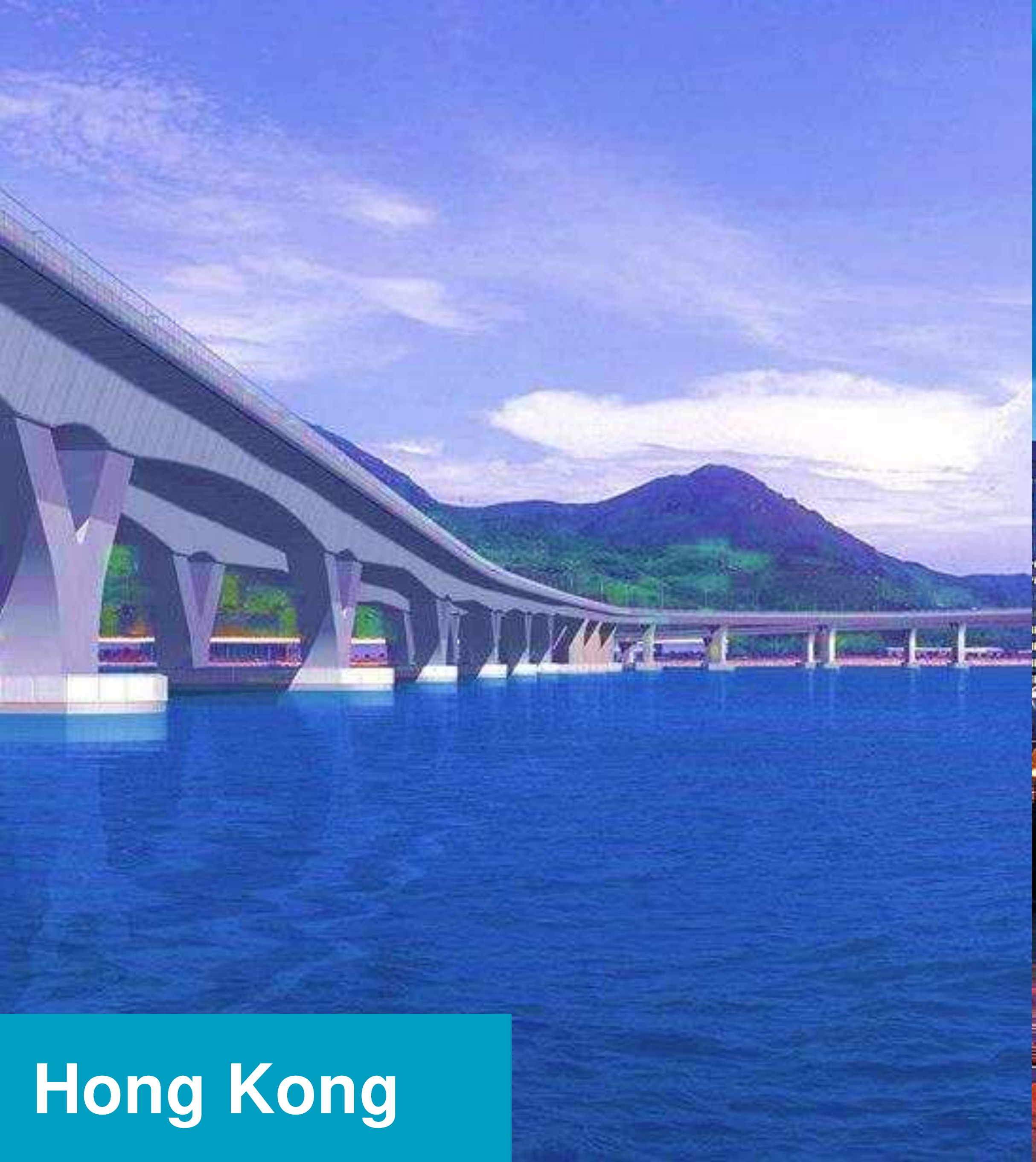


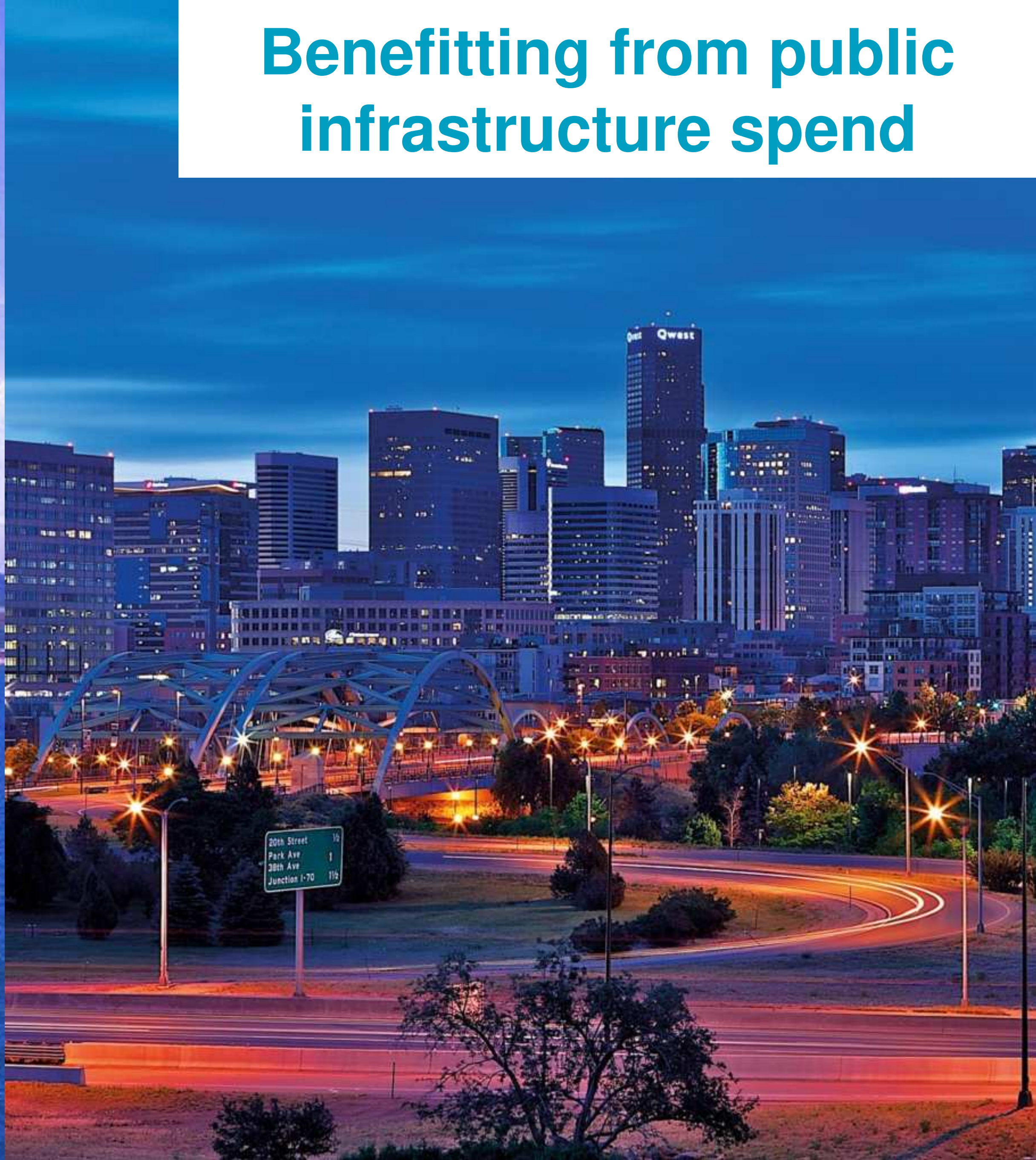
Capitalising on strength in target sectors

Water

Transport

Benefitting from public infrastructure spend





Pursuing the Investments strategy

- Core to the Group and a significant income generator
- Further diversification into student accommodation and energy
- Ability to develop assets generating development fees
- Increasingly acting as a differentiator for the Group
- Providing flexibility to provide capital for future growth strategy

Sale of UK facilities management business, WorkPlace

- Positive development, providing capacity to invest behind strategy
- Agreement to sell business to GDF Suez Energy Services for c.£190m
- Fair value achieved
- Good home for customers and employees

Increased pace of initiatives to drive business forward

- Taken firm action in UK Construction business
- Delivered benefits on organisational change in the USA
- Continued to deliver against efficiency targets
- Made progress with sale of Swedish and German rail operations
- Initial successes in Australia with country model
- Grew presence in infrastructure in the Middle East
- Signed agreement to sell UK facilities management business, WorkPlace
- Delivered strongly on Investments objectives
- Maintained a strong balance sheet

Remain focused on operational delivery in the second half

- Deliver further progress on action plans in the UK and Australia
- Maintain momentum on the growth of market share in the USA
- Make further progress in US student accommodation market
- Progress the disposal of German Rail business
- Ensure smooth transition of WorkPlace
- Complete establishment of Australian country model with a clear plan for medium-term growth

Our strategic vision

- Capitalise on the growth in global infrastructure from an international footprint of local businesses
- Ensure we maximise the benefit from the impending market recovery in our mature markets

APPENDIX

Performance by sector

FY 2012	£m	HY 2013	HY 2012
98	Professional Services	26	42
119	Construction Services	(41)	59
30	Support Services	17	4
69	Infrastructure Investments	63	67
(32)	Corporate costs	(13)	(16)
284	**Profit from operations***	**52**	**156**
(7)	Net finance cost	(7)	(6)
277	**Pre-tax profit***	**45**	**150**

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

Pensions charge

FY 2012	£m	HY 2013	HY 2012
	Defined benefit schemes:		
48	P&L charge – service cost	24	25
(2)	P&L credit – past service credit	-	(2)
(127)	Expected return on assets	(61)	(63)
137	Interest cost on scheme liabilities	67	68
10	Net finance charge	6	5
56	Net pension charge*	30	28
	Defined contribution schemes:		
56	P&L charge	27	29
112	**Total charge***	**57**	**57**

** before non-underlying items*

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Discontinued business – Rail Germany/Scandinavia/Spain

FY 2012		HY 2013	HY 2012	Actual growth	Constant currency
£0.6bn	Order book	£0.6bn	£0.6bn	-13%	-14%
£448m	Revenue	£187m	£201m	-7%	-11%
£2m	(Loss)/profit*	£(18)m	£(6)m		
£(98)m	Non-underlying items	£(50)m	-		

** before non-underlying items*

- Poor financial performance from Germany, rest breakeven
- Spain sold in March 2013, Scandinavia – offer received at book value
- Germany – in discussion with a number of buyers for main business
- German signalling workshop sold, switches and crossings manufacturing being closed
- Non-underlying items include £38m goodwill impairment (FY 2012 £95m)

Discontinued business – UK Facilities Management

FY 2012		HY 2013	HY 2012	Actual growth	Constant currency
£1.2bn	Order book	£1.5bn	£1.4bn	+15%	+15%
£482m	Revenue	£272m	£235m	+16%	+16%
£22m	Profit*	£9m	£6m	+50%	+50%
£(7)m	Non-underlying items	£(4)m	£(3)m		

** before non-underlying items*

- Good order book and revenue performance
- A number of advanced bids in pipeline
- Completion of disposal subject to EU competition clearance, expected in Q4 2013
- Non-underlying items include amortisation of acquired intangible assets

Group balance sheet

£m	June 2013	Dec 2012	June 2012
Goodwill and intangible assets	1,307	1,372	1,487
Current assets#	2,066	2,047	2,333
Current liabilities and provisions#	(2,809)	(2,824)	(3,091)
Working capital#	(743)	(777)	(758)
Net assets held for sale	154	-	-
Net cash/(borrowings) (excluding PPP subsidiaries)	(189)	35	34
PPP subsidiaries – financial assets	537	542	521
PPP subsidiaries – non-recourse net borrowings	(380)	(368)	(352)
Retirement benefit obligations (net of tax)	(262)	(258)	(163)
Other assets	1,147	1,209	913
Other liabilities	(381)	(449)	(430)
Equity holders' funds	**1,190**	**1,306**	**1,252**

excluding cash/borrowings, tax and derivatives

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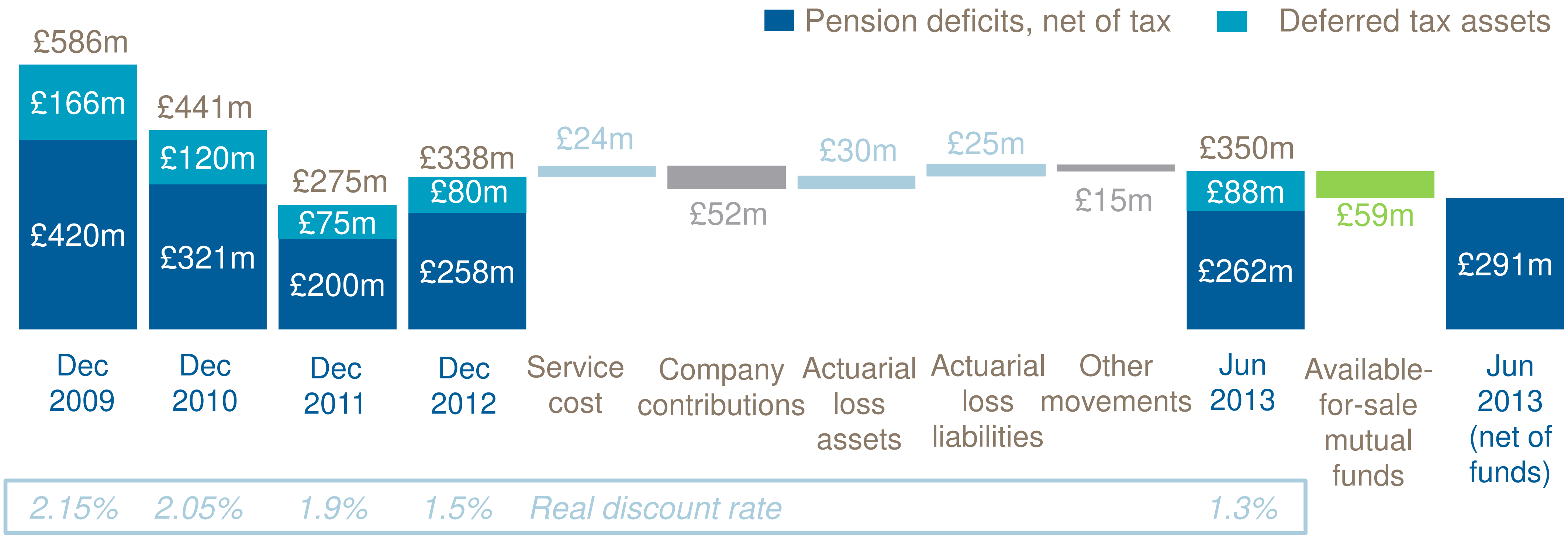
Pensions – balance sheet movement



Cumulative contributions for deficit funding of £262m since December 2009

Balance sheet cash movement

£m	HY 2013	HY 2012
Opening net cash†	35	340
Cash used in operations†	(234)	(289)
Dividends from JVs and associates	13	32
Capital expenditure and financial investment	26	(33)
Acquisitions and disposals (net of net cash acquired)	(21)	(3)
Dividends, interest and tax paid	(11)	(8)
Exchange adjustments	21	(2)
Other items	(18)	(3)
Closing net cash/(borrowings)†	**(189)**	**34**
PPP subsidiaries non-recourse net borrowings	(380)	(352)
Closing net borrowings	(569)	(318)

† treating PPP subsidiaries as joint ventures/associates

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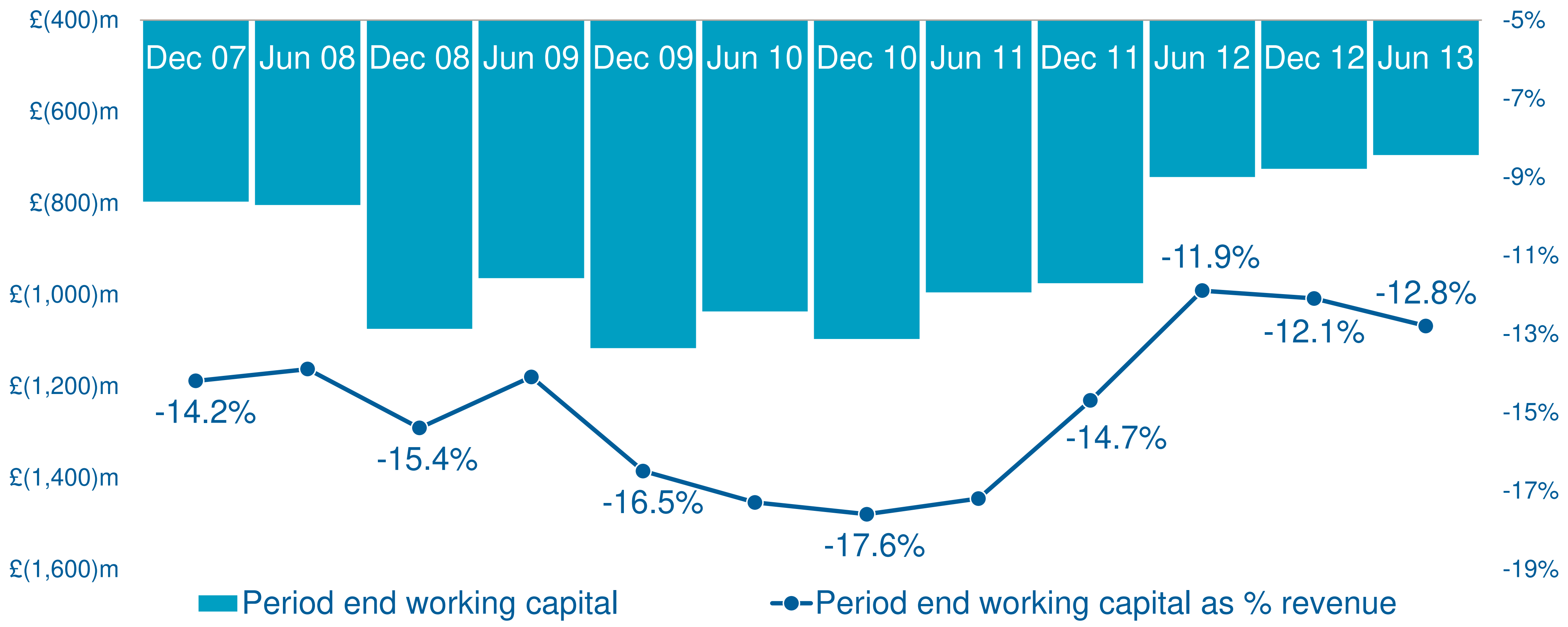
Working capital – Construction Services consolidated



December 2011 and earlier figures include 2013 discontinued operations

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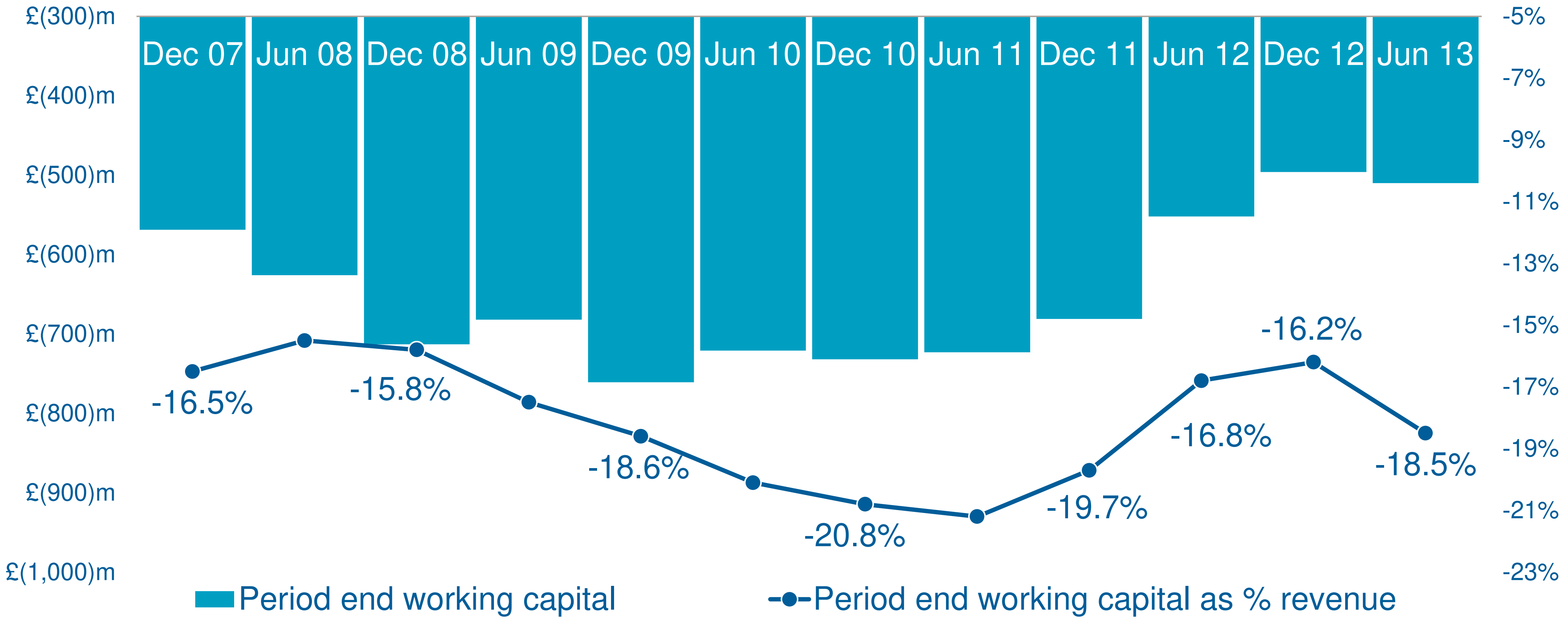
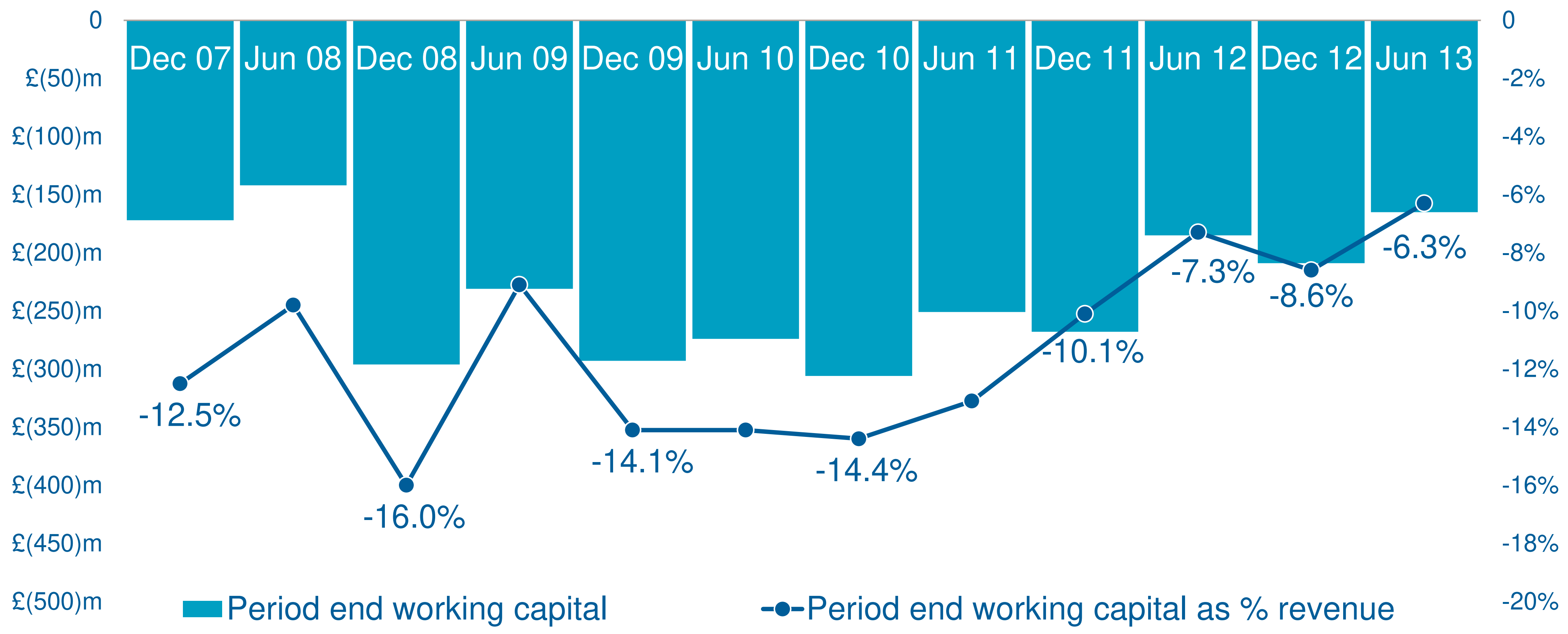
Working capital – Construction Services UK



Working capital – Construction Services US



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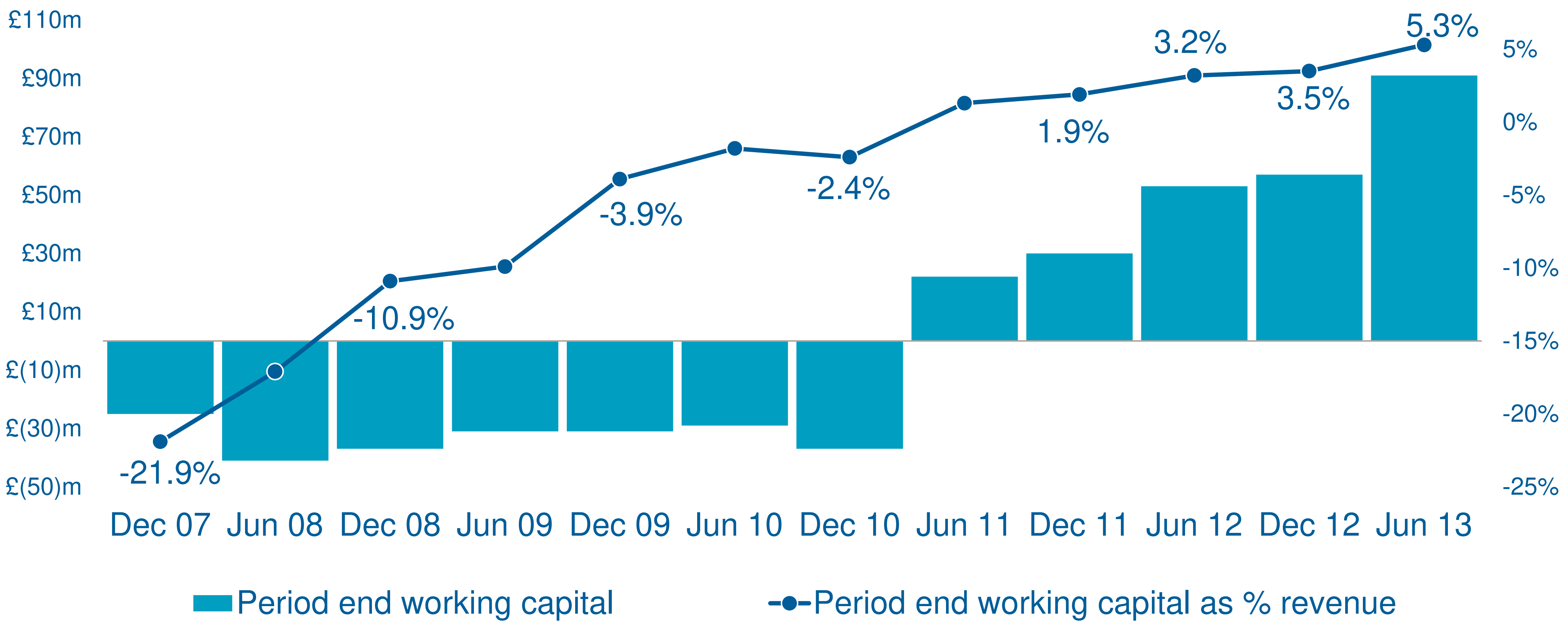
Working capital – Professional Services



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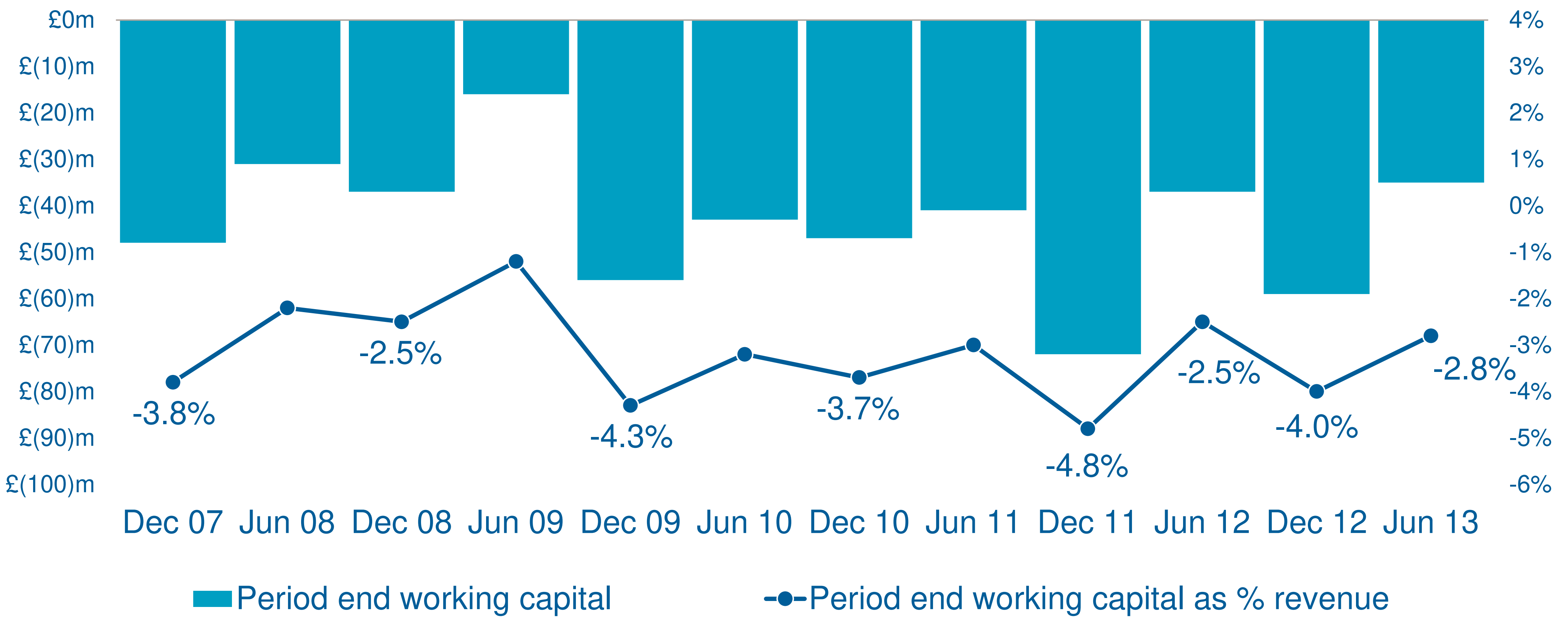
Working capital – Support Services



December 2011 and earlier figures include 2013 discontinued operations

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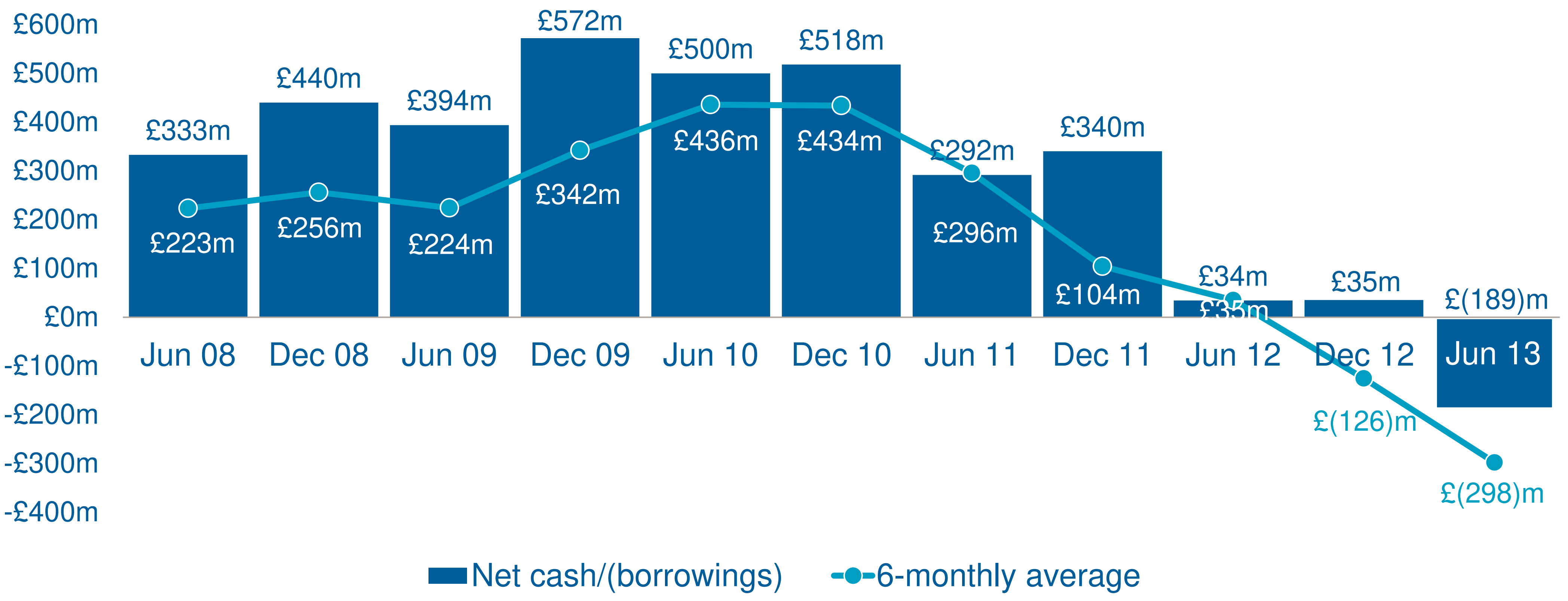
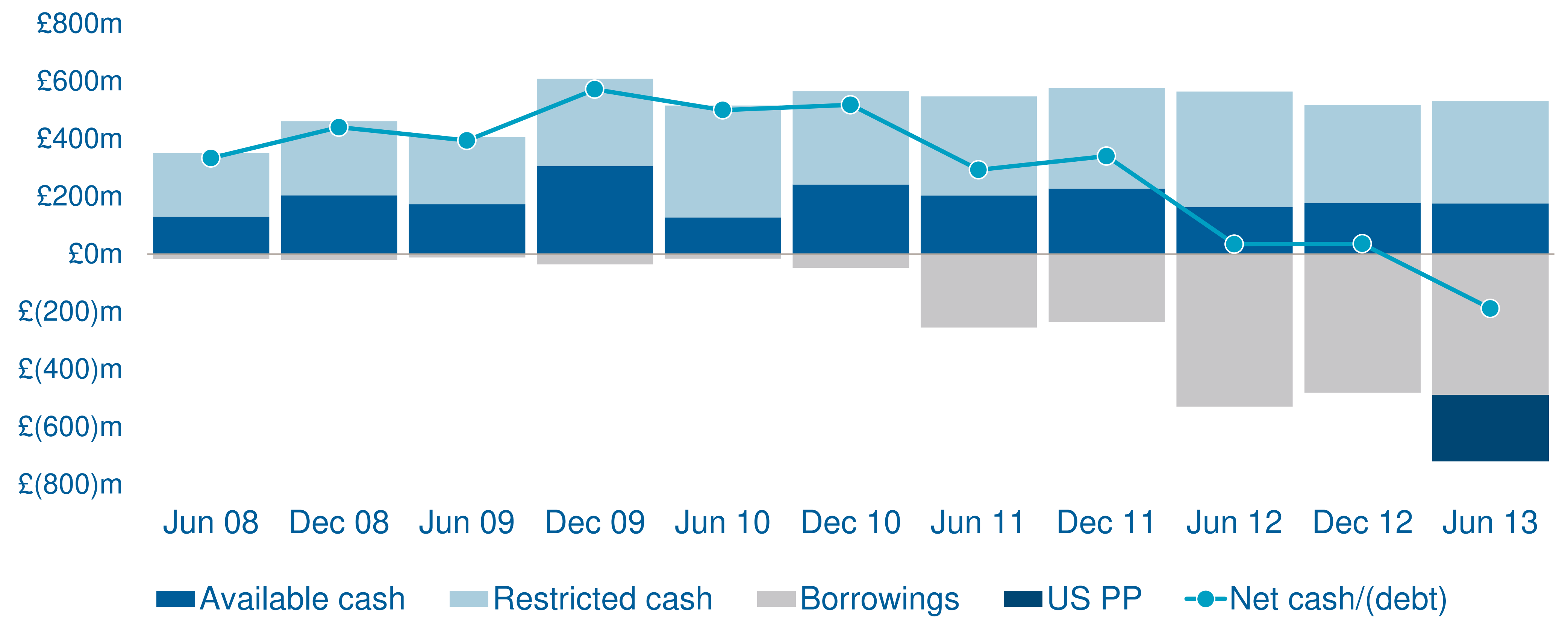
Average net cash/(borrowings)†

Reduction due to expected working capital movements



† excluding net debt of PPP subsidiaries

Analysis of net cash/(debt) balances†



† excluding net debt of PPP subsidiaries

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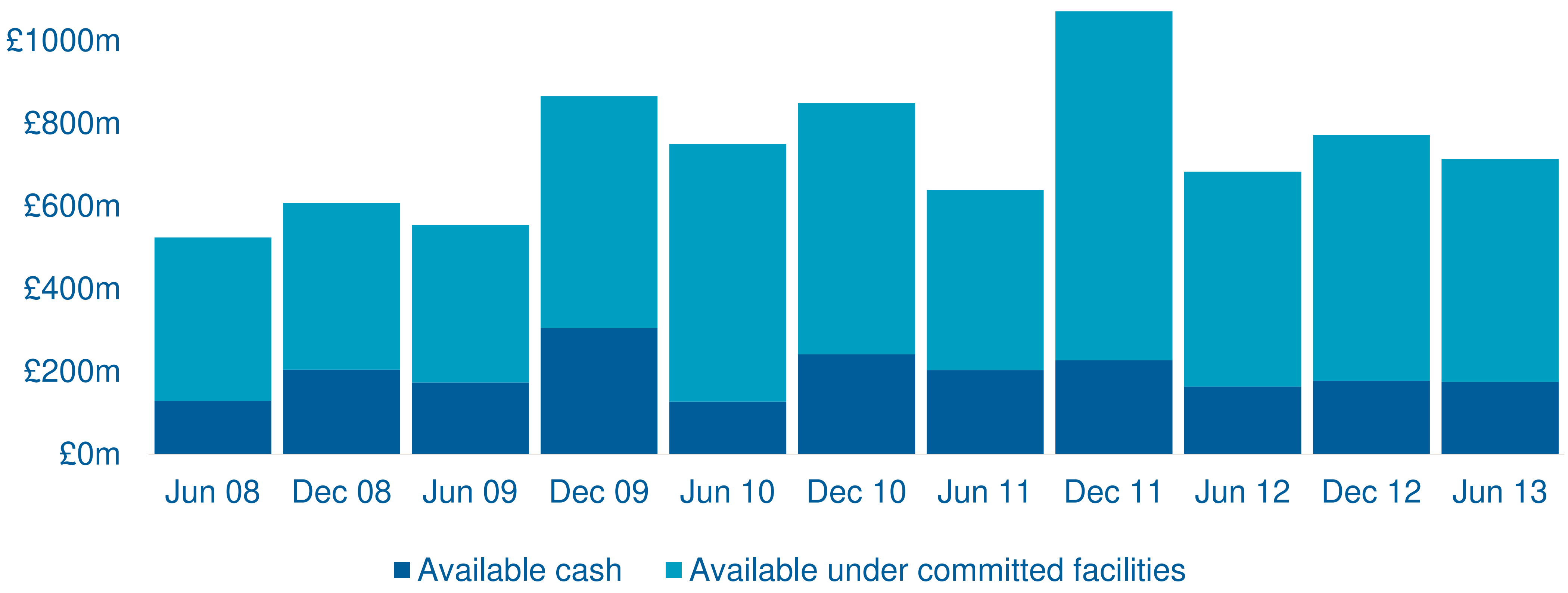
Available funds



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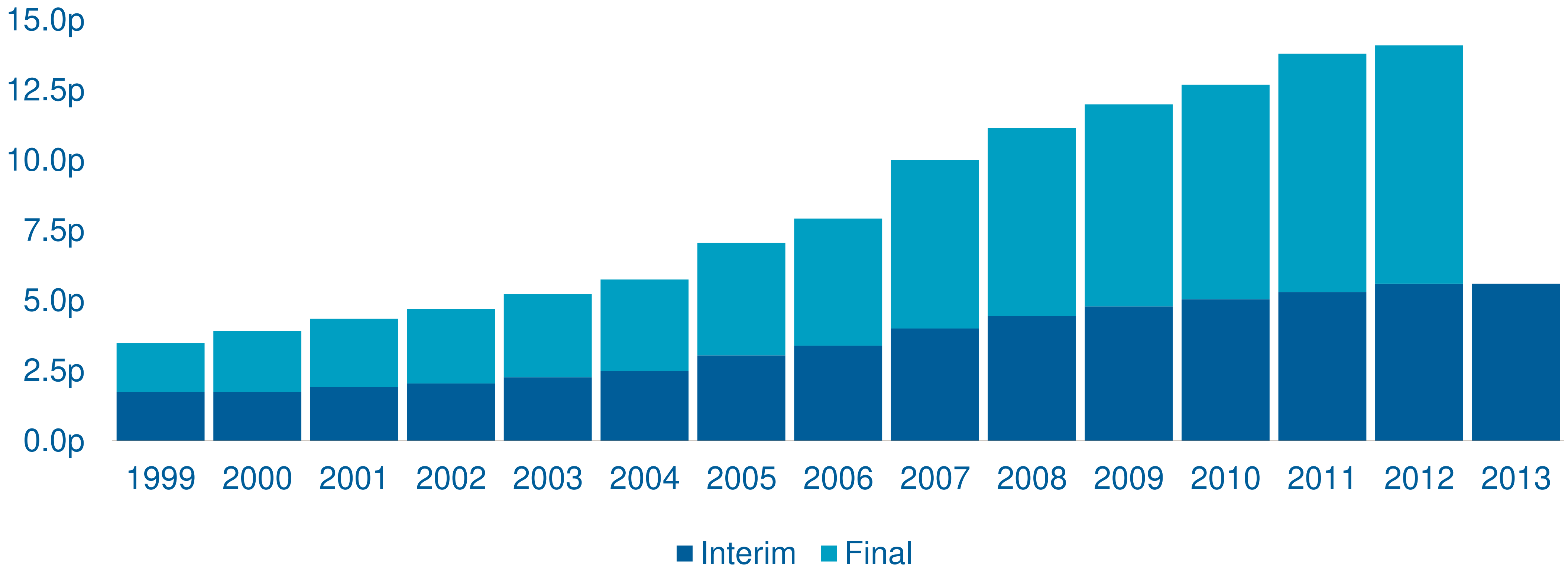
Dividends per share



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