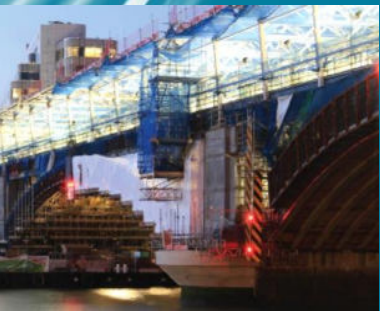


**Balfour Beatty**

# 2012 full-year results presentation

7 March 2013



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IAN TYLER

Chief Executive Officer

# Resilient underlying earnings performance

	FY 2012	FY 2011	Actual growth	Constant currency
Revenue*	£10,896m	£11,035m	-1%	-1%
Profit from operations*	£309m	£331m	-7%	-7%
Pre-tax profit*	£310m	£334m	-7%	
Underlying EPS*	35.0p	35.5p	-1%	
Full-year proposed dividend	14.1p	13.8p	+2%	
Average (borrowings)/cash for year	£(46)m	£200m		
Net cash (excluding 100% PPP)	£35m	£340m		
Directors' valuation of PPP	£734m	£743m		
Order book	£15.3bn	£15.2bn	+1%	+3%

\* from continuing operations, before non-underlying items

# Segmental highlights

## Professional Services

Increasing margin towards target range

## Infrastructure Investments

Diversifying into a broadly based infrastructure business

Securing value from the disposal of mature assets

## Support Services

12% increase in order book underlies growth potential

## Construction Services

Stable performance in the US

UK and rail continue to be difficult

# Strategic highlights

Single-capability  
markets

Economic  
infrastructure

Share in order book

**2012**

**37%**

**63%**

**2011**

**41%**

**59%**

**2009**

**57%**

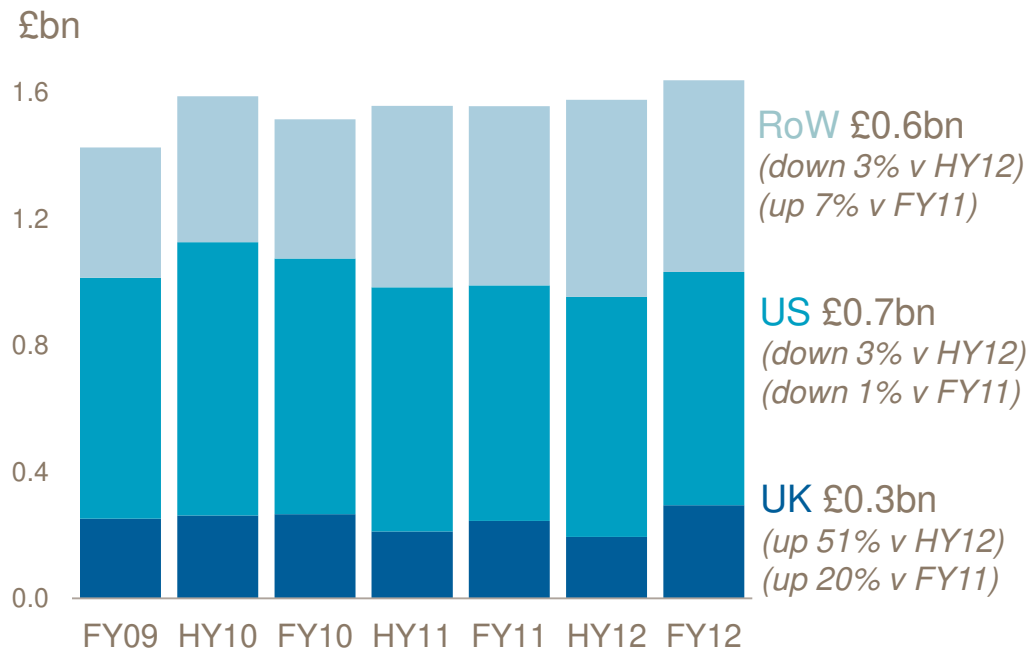
**43%**

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**DUNCAN MAGRATH**  
Chief Financial Officer

# Professional Services – FY 2012 by geography

## Steady performance

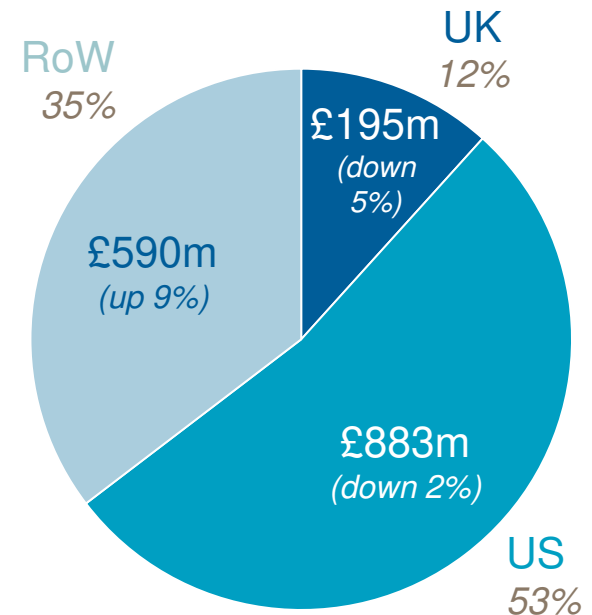


### Order book

£1.6bn

(up 4% v HY12: £1.6bn)

(up 5% v FY11: £1.6bn)



### Revenue

£1,668m up 1%

(FY11: £1,645m)

Percentage changes relative to FY11



# Professional Services

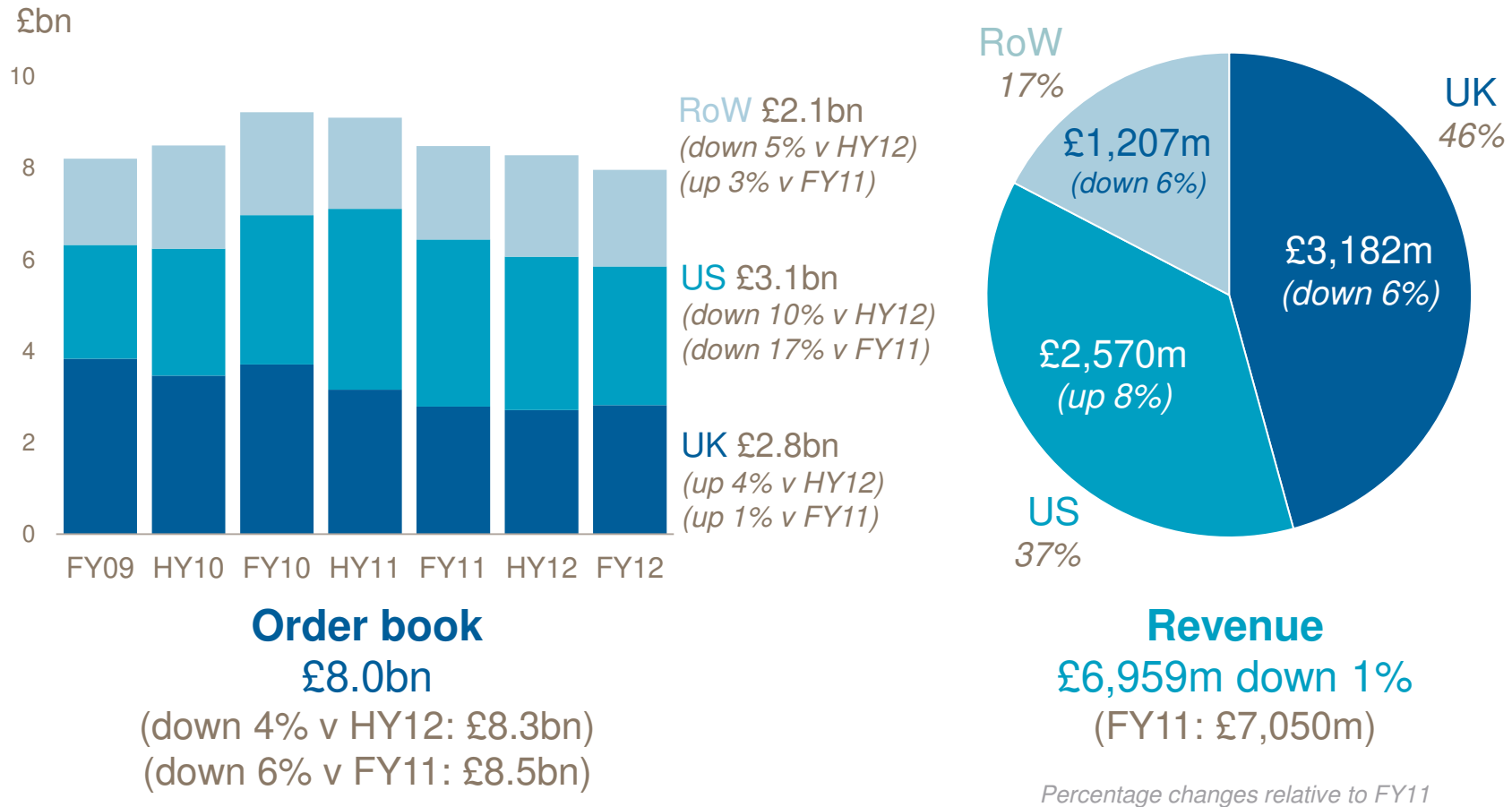
	FY 2012	FY 2011	Actual growth	Constant currency
Order book	£1.6bn	£1.6bn	+5%	+9%
Revenue	£1,668m	£1,645m	+1%	+1%
Profit*	£98m	£87m	+13%	+12%
Margin %	5.9%	5.3%		

\* before non-underlying items

- Improved margin v FY 2011
- Good profit performance in the US, particularly power and transportation
- Continuing growth in RoW, particularly Qatar and Canada
- Completion of profitable projects in Australia and Asia
- UK benefits from cost savings in difficult market

# Construction Services – FY 2012 by geography

## Revenue decline, particularly in second half



# Construction order book coverage

## Stronger US coverage than UK

	31 Dec 2012			Multiple of revenue		
	2012 revenue	Unexecuted orders	ABNC	Total	Orders	Total
US	£2.6bn	£3.1bn	£2.9bn	£6.0bn	1.2x	2.3x
UK	£3.2bn	£2.8bn	£1.1bn	£3.9bn	0.9x	1.2x

# Construction Services

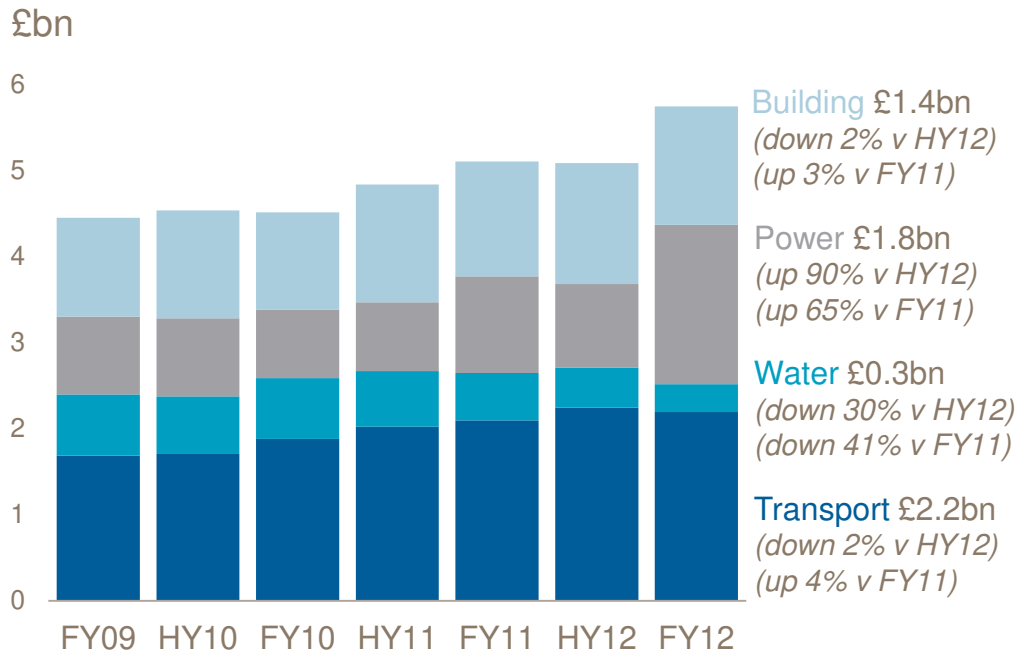
	FY 2012	FY 2011	Actual growth	Constant currency
Order book	£8.0bn	£8.5bn	-6%	-4%
Revenue	£6,959m	£7,050m	-1%	-1%
Profit*	£122m	£169m	-28%	-28%
Margin %	1.8%	2.4%		

\* before non-underlying items

- US revenues +9% from acquisitions, -1% organic, but margin down as anticipated
- UK – mix of successful completion of old projects and some operational issues
- Reduced rail performance in UK and Mainland Europe – divestment of Mainland Europe underway
- Continuing revenue and order growth in Hong Kong
- Low volumes in the UAE, but cash outlook improving

# Support Services – FY 2012 by market

## Expected increases in power



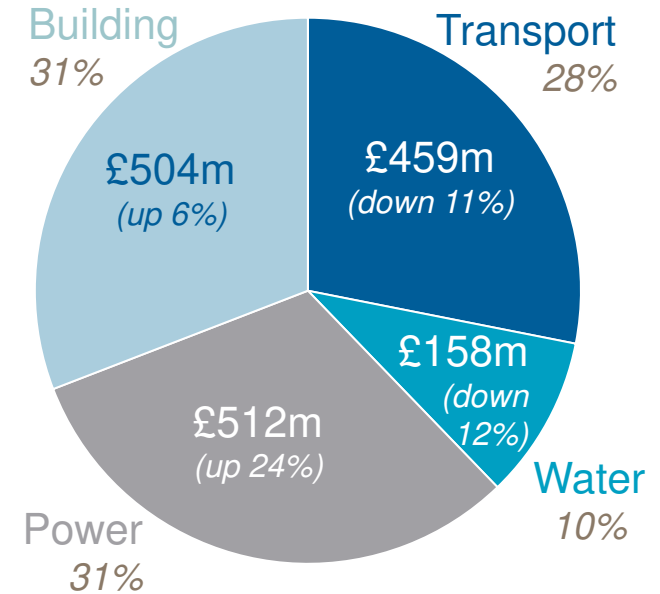
### Order book

£5.7bn

(up 13% v HY12: £5.1bn)

(up 12% v FY11: £5.1bn)

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



### Revenue

£1,633m up 3%

(FY11: £1,584m)

*Percentage changes relative to FY11*

# Support Services

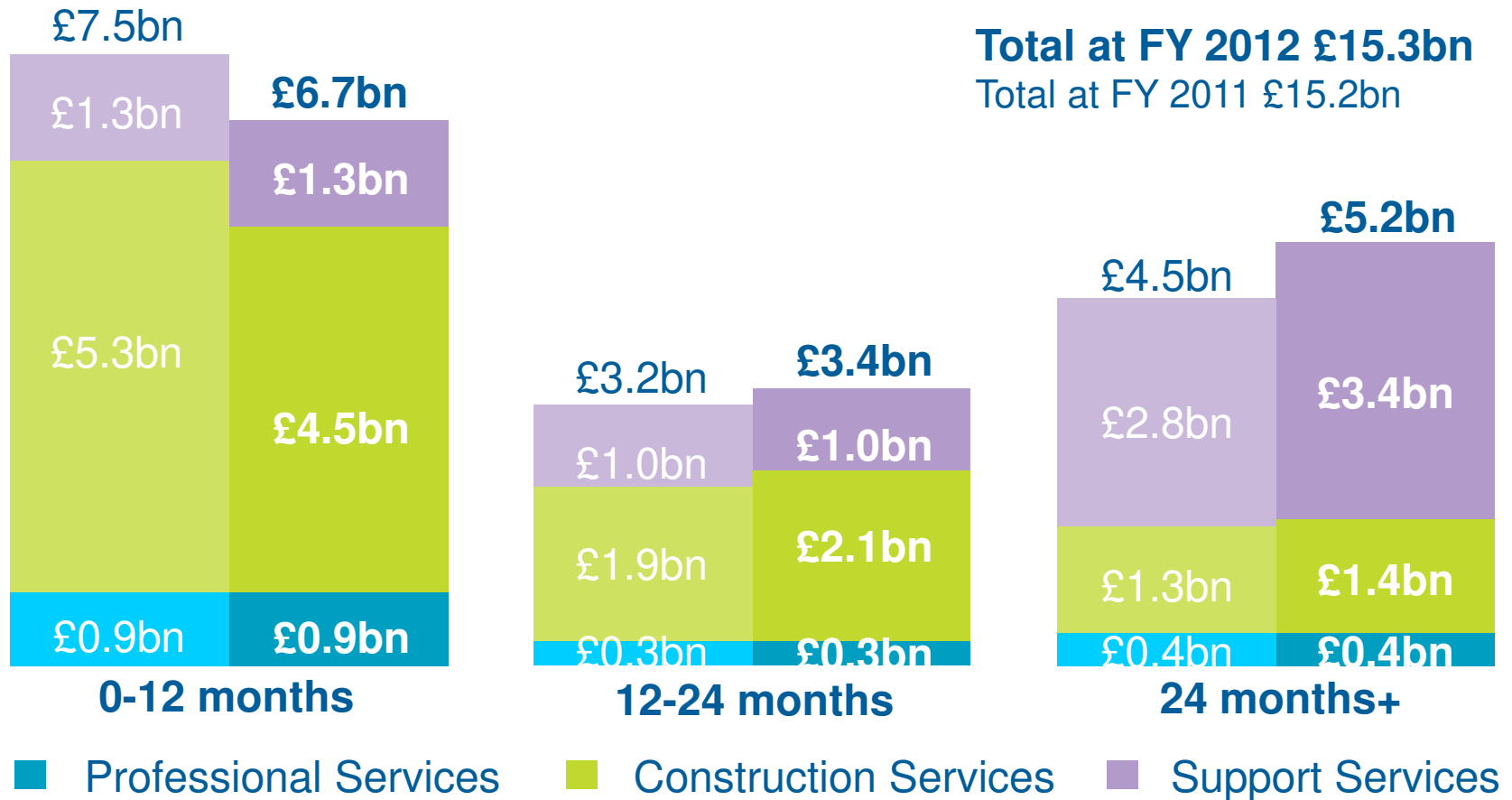
	FY 2012	FY 2011	Actual growth	Constant currency
Order book	£5.7bn	£5.1bn	+12%	+12%
Revenue	£1,633m	£1,584m	+3%	+3%
Profit*	£52m	£67m	-22%	-22%
Margin %	3.2%	4.2%		

\* before non-underlying items

- Strong growth in order book, particularly power and local authority
- Good revenue growth in power and buildings
- Cost increases in a small number of utilities projects in first half
- Increasing power opportunities, rail renewal margin pressures

# Order book position compared to a year ago

## Resilient medium term, construction weakness near term



*In each series group, left-hand column represents the order book as at 31 December 2011, and the right-hand column as at 31 December 2012*

# Infrastructure Investments

## Strong earnings performance

£m	FY 2012			FY 2011		
	Group	JVs & assoc	Total	Group	JVs & assoc	Total
PPP UK/Singapore	2	35	37	1	37	38
PPP US	12	6	18	12	7	19
Infrastructure	(3)	(1)	(4)	(3)	(1)	(4)
Bidding costs & overheads	(34)	-	(34)	(30)	-	(30)
Pre-disposals operating profit*	(23)	40	17	(20)	43	23
Gain on disposals	52	-	52	20	-	20
<b>Investments operating profit*</b>	<b>29</b>	<b>40</b>	<b>69</b>	<b>-</b>	<b>43</b>	<b>43</b>
<i>Subordinated debt interest income</i>			24			25
<i>PPP subsidiaries' net interest</i>			4			3
<b>Investments pre-tax result*</b>			<b>97</b>			<b>71</b>
<i>Investments post-tax result*</i>			91			64

\* from continuing operations, before non-underlying items



# Infrastructure Investments

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- Achieved financial close on
  - Waste facility in Essex
  - Western Group military family housing for US Air Force
  - Energy-from-waste facility in Gloucestershire (February 2013)
- Appointed preferred bidder on
  - Edinburgh University student accommodation
  - Aberystwyth University student accommodation (February 2013)
- Remain preferred bidder on
  - Two offshore transmission (OFTO) projects (Thanet & Greater Gabbard)
  - Two military family housing projects for US Air Force (ACC Group III & Northern Group)
- Directors' PPP valuation at £734m, after disposals of £84m
- Reached first close on Infrastructure Fund (January 2013)

# Net interest income

£m		FY 2012	FY 2011
PPP subordinated debt interest receivable		24	25
PPP interest on financial assets	31		
PPP interest on bank loans and overdrafts	(27)	4	3
Net finance costs – pension schemes*		-	(3)
Other interest receivable	7		
Other interest payable	(22)	(15)	(10)
Preference shares finance cost		(12)	(12)
<b>Net investment income</b>		<b>1</b>	<b>3</b>

\* pension net finance cost on IAS19 (2008) basis

## Impact of revised IAS19 standard

	2011	2012	Original est. for 2013	Revised est. for 2013
Expected return on pension plan assets	6.10%	5.20%	5.20%	5.10%
Discount rate on obligations	5.45%	4.85%	4.80%	4.40%
<b>Difference</b>	<b>0.65%</b>	<b>0.35%</b>	<b>0.40%</b>	<b>0.70%</b>
Impact on reported pension net finance cost	£17m	£10m	£13m	£21m

- Previous estimate of £13m increased to £21m

## Mainland European rail restructuring

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- 2012 revenue £465m
- Not consistent with strategy of multiple market sectors within specific geographies
- Divesting all Mainland European rail businesses over time – Spain sold March 2013
- Goodwill written down from £156m to £61m
- Restructuring costs of £9m incurred in 2012

# Cost efficiency programme

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- Targeting £80m annual savings by 2015
- Shared service centres – expand UK, set up Lancaster, PA
- Reorganisations
  - UK construction into three business streams
  - US construction into three regions
- Additional procurement efficiencies, including global
- Achieved £36m savings in 2012, at a one-off cost in 2012 of £61m

# Other non-underlying items

£m

Post-acquisition integration, reorganisation and other costs	(9)
Write-down of investment in Exeter International Airport	(12)
Cost of implementing UK shared service centre	(4)
Other non-underlying items	<b>(25)</b>
Amortisation of acquired intangible assets	(45)
Other non-underlying items before tax	<b>(70)</b>

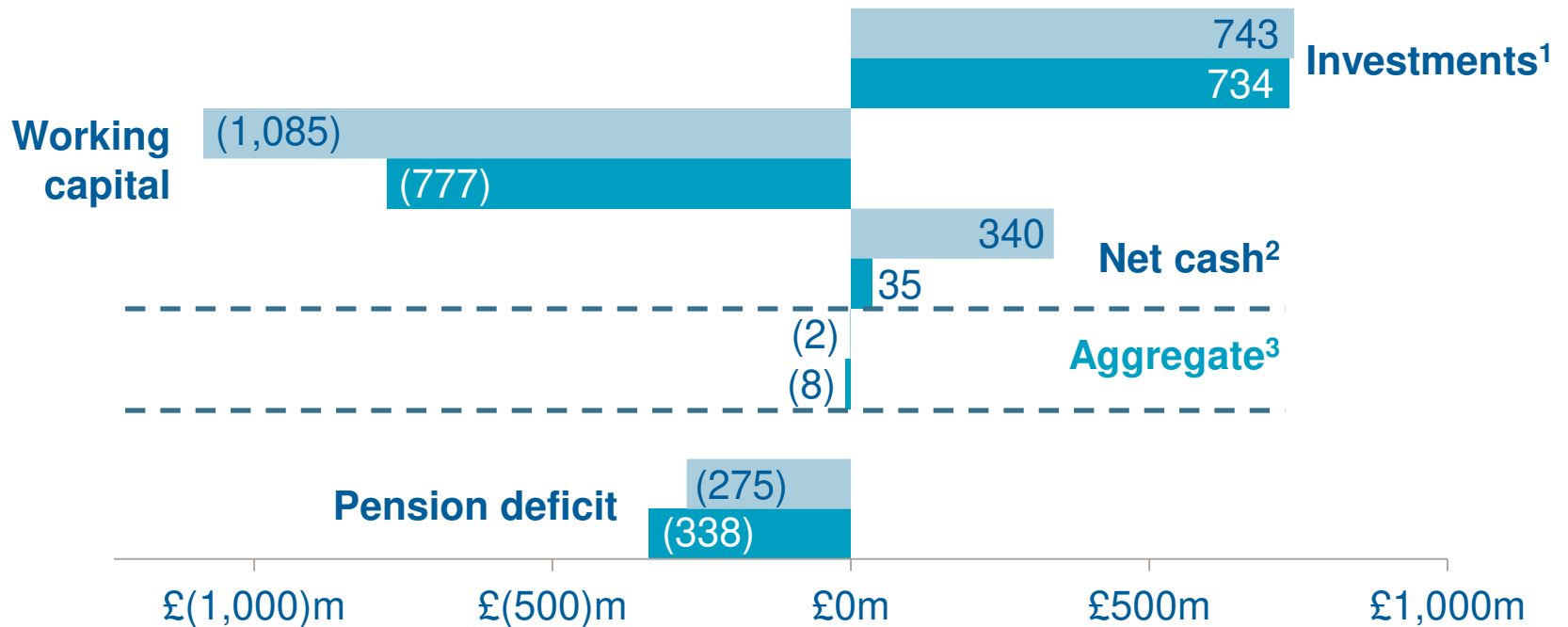
# Cash from operations – FY 2012

## Working capital outflow from construction cycle

£m	FY 2012	FY 2011
Group operating profit*	212	256
Depreciation	64	70
Non-underlying items	(83)	(19)
Gain on disposals of interests in PPP JVs	(52)	(20)
Other items	11	7
	<b>152</b>	<b>294</b>
Pension deficit payments	(61)	(58)
Working capital increase	(310)	(201)
<b>Cash (used in)/generated from operations</b>	<b>(219)</b>	<b>35</b>
Net capex and purchase of intangibles	(53)	(75)
	(272)	(40)
<i>* before non-underlying items</i>		

# Balance sheet elements

## Changing shape, remains in balance



<sup>1</sup> Directors' valuation of PPP concessions

<sup>2</sup> excluding net borrowings of PPP subsidiaries (non-recourse)

<sup>3</sup> aggregate balance of investments, working capital and net cash

■ Dec 2011 ■ Dec 2012



# PPP portfolio valuation movements – FY 2012

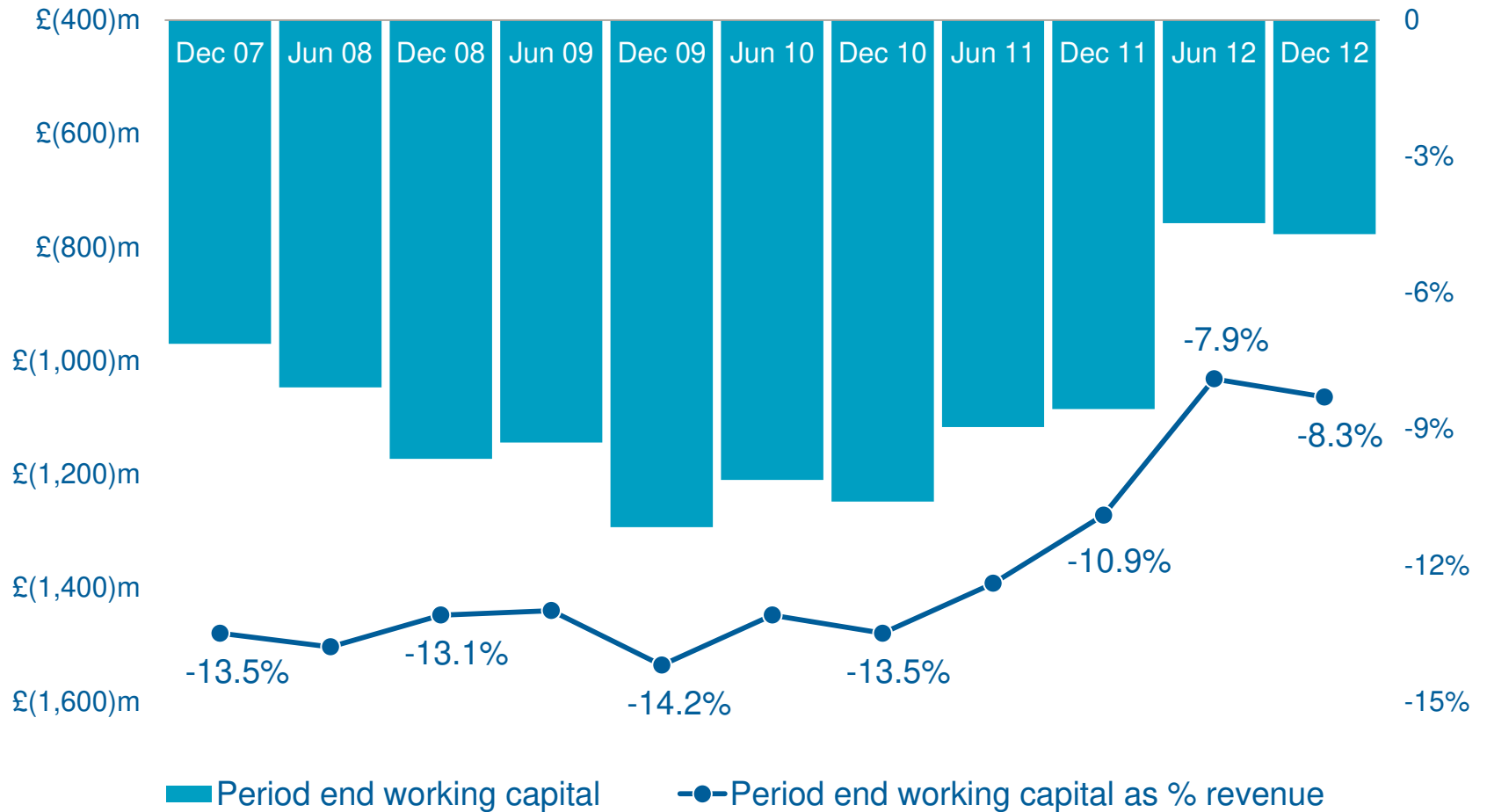
## Valuation stable, despite £114m net distributions

£m

Valuation as at December 2011		743
Cash invested		
Cash received – distributions	(85)	
– disposals	(84)	
	<b>Net cash received</b>	
		(114)
Unwind of discount on NPV		75
New project wins		4
Disposal gains, operational gains + FX		26
<b>Valuation as at December 2012</b>		<b>734</b>

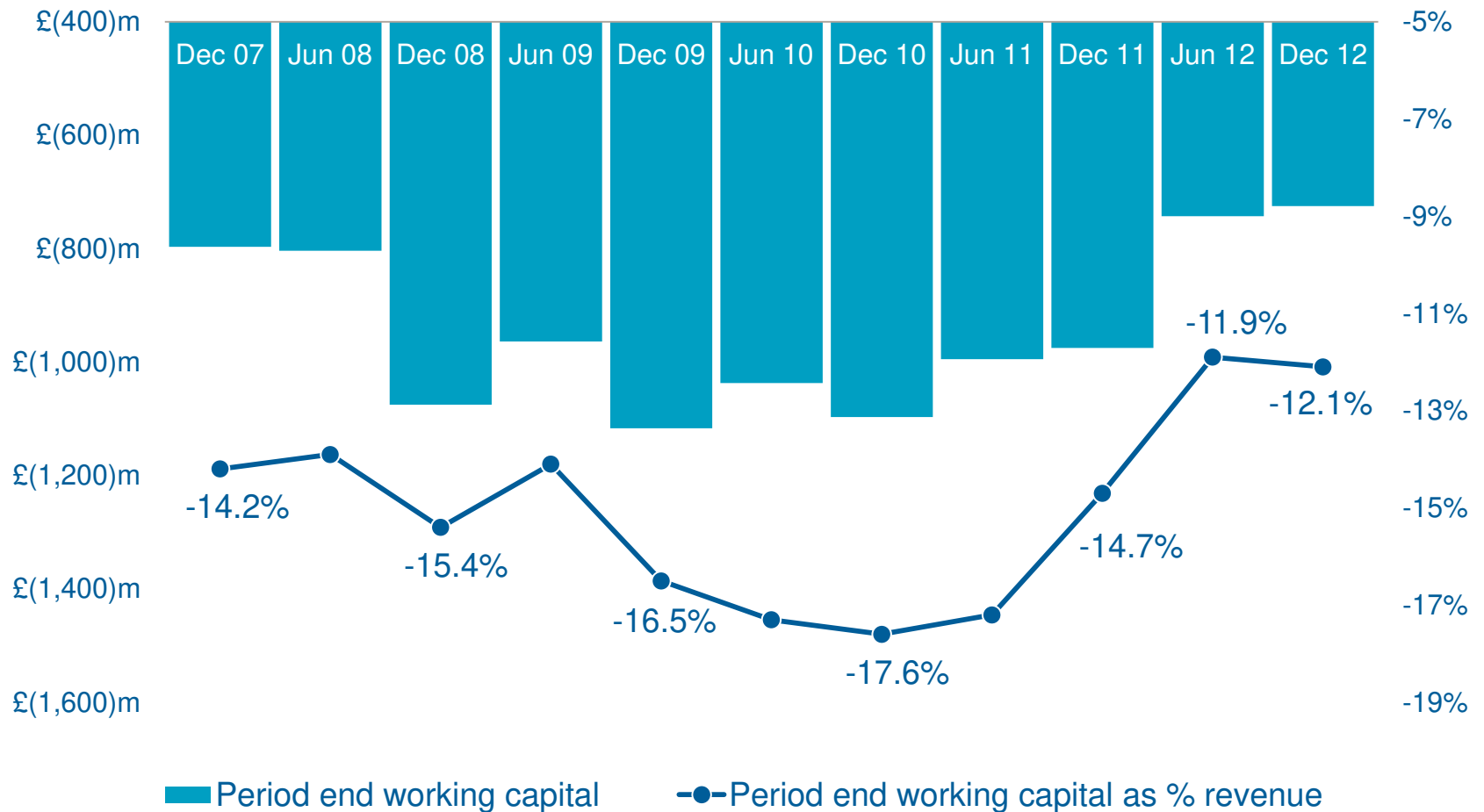
# Working capital – Group

## Seasonal improvement offset by impact of volume reductions



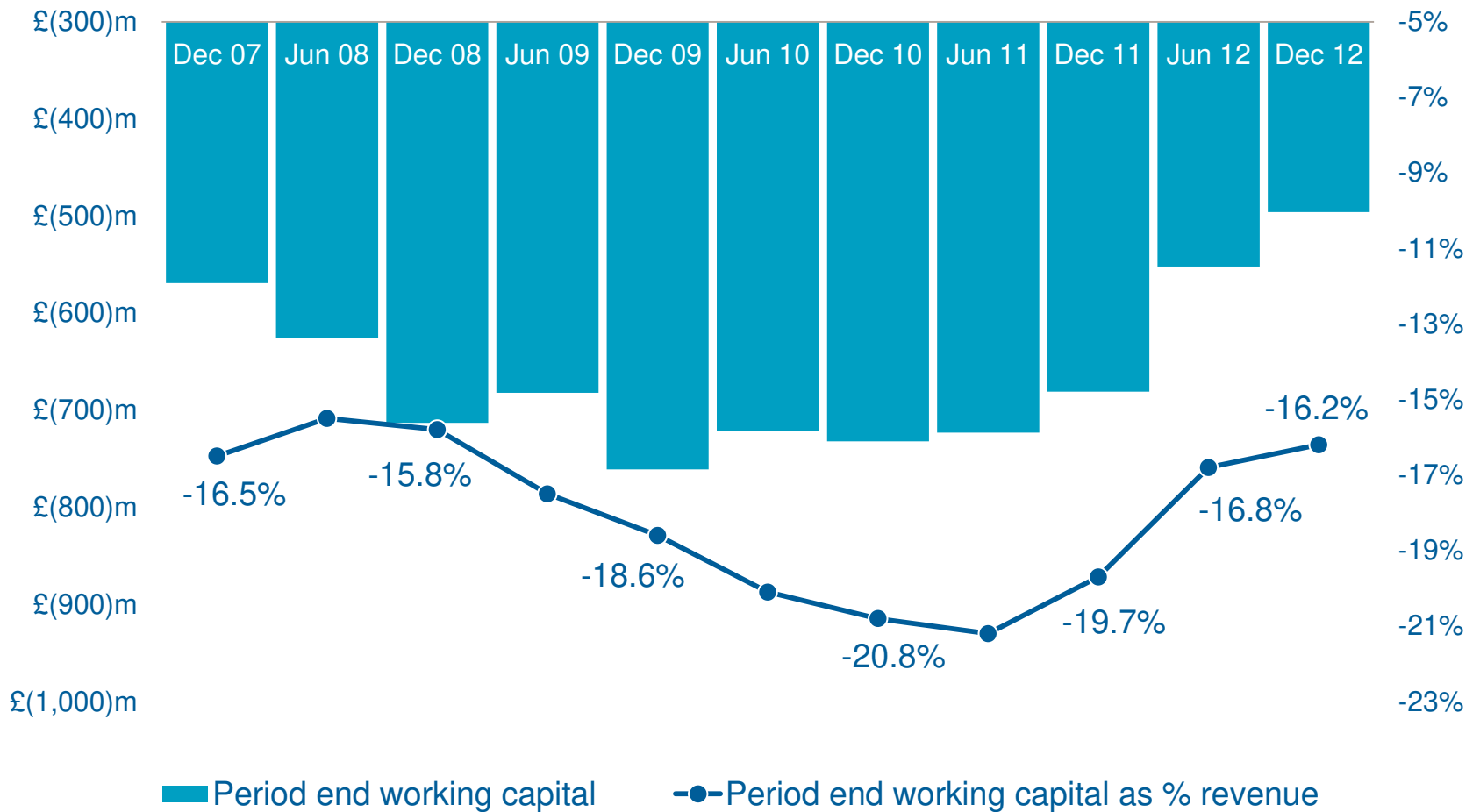
# Working capital – Construction Services

## In line with June, UK reduction offset by US increase



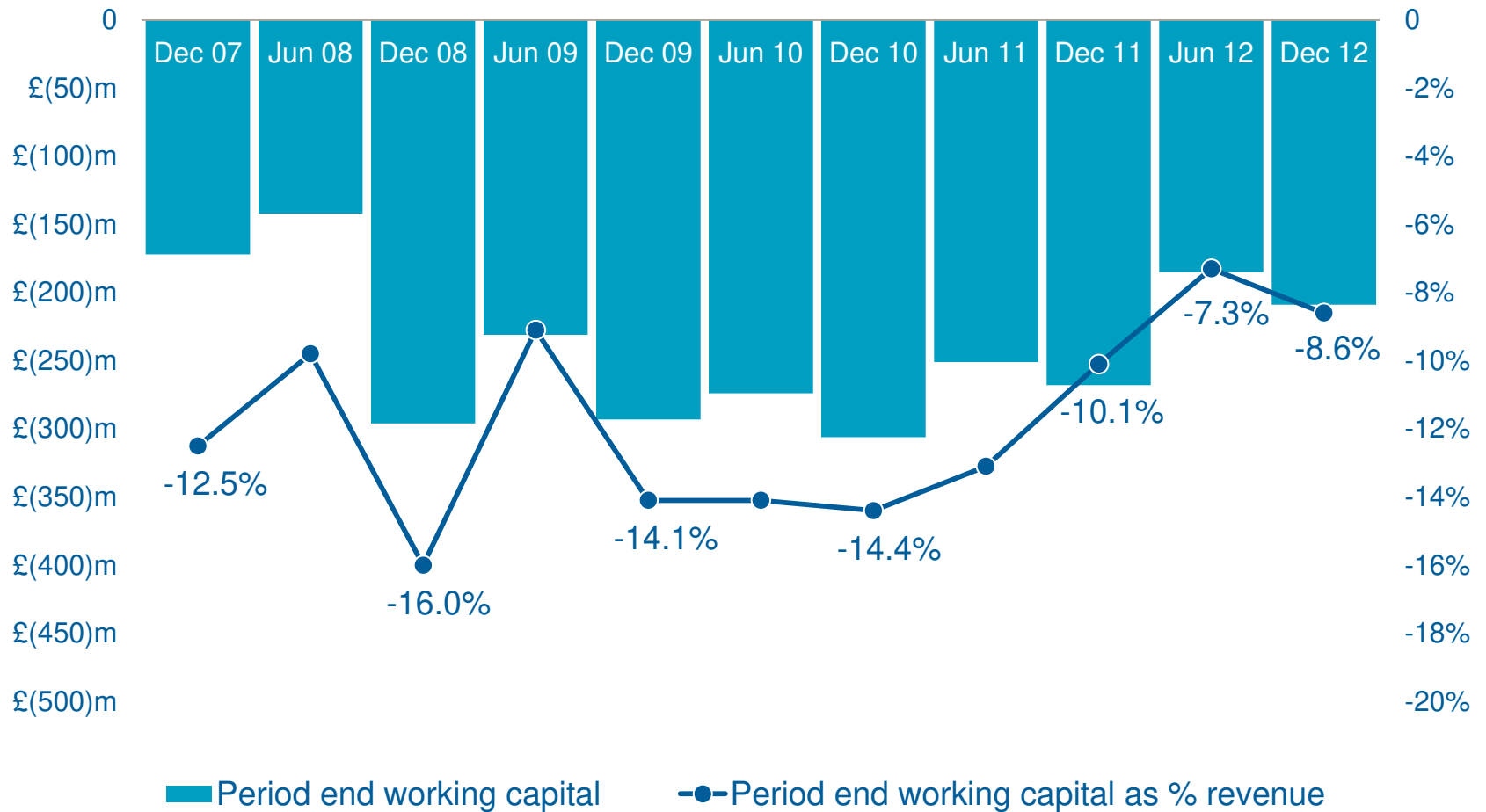
# Working capital – Construction Services UK

## Reduction from volume and mix

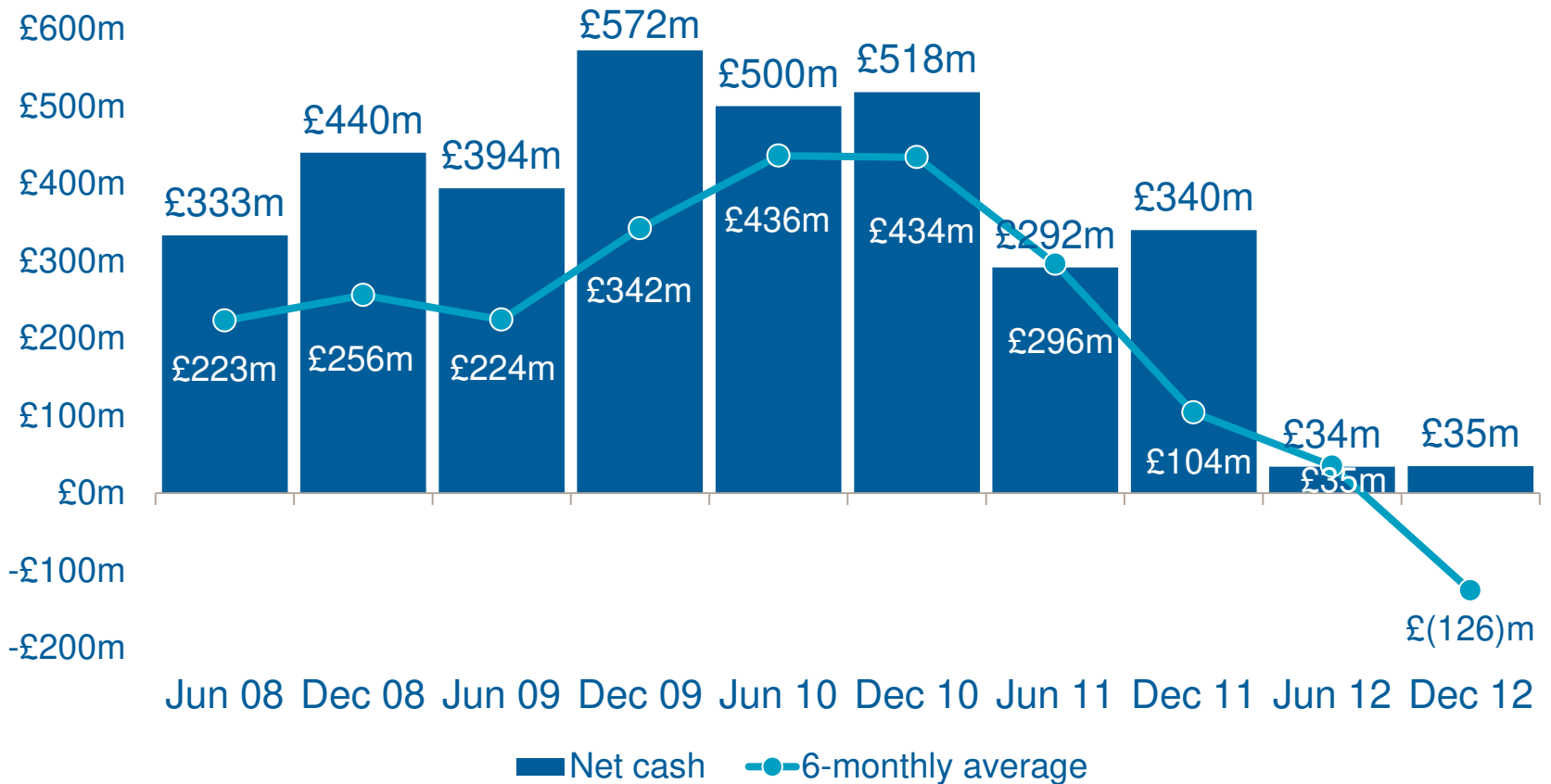


# Working capital – Construction Services US

## Flattening out, ahead of UK cycle



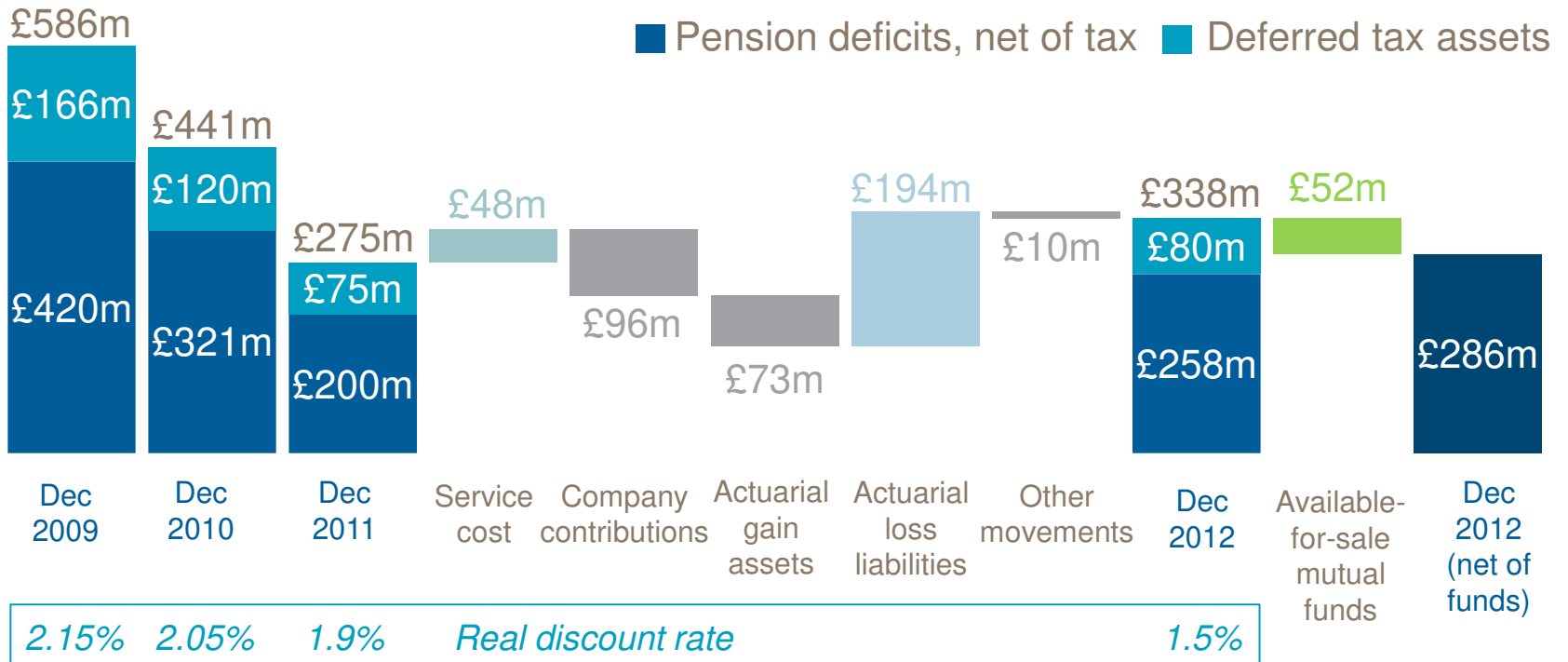
# Average net cash/(borrowings)<sup>†</sup> Impacted by working capital movements



<sup>†</sup> excluding net borrowings of PPP subsidiaries (non-recourse)

# Pensions – balance sheet movement

## Increased deficit from reduction in real discount rate



Cumulative contributions for deficit funding of £255m since December 2009

# Summary of 2012

---

- Order book up 1% at £15.3bn
- Good margin performance in Professional Services
- Crystallisation of investments value offsetting Construction and Support Services declines
- Pre-tax profit down 7% and EPS down 1%
- Final dividend maintained at 8.5p, total dividend up 2%



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ANDREW MCNAUGHTON  
Chief Operating Officer

# Introduction

- Update on our response to market conditions
- Specific actions over next few months
- Strategic initiatives we are implementing



# Construction markets

- Conditions deteriorated in UK construction in the second half of 2012
  - Expected to continue in 2013
- Some improvement in the US order book since the start of the year
  - Higher margins not to come through before 2014
- Overall, we see a difficult year for Construction Services



# Cost efficiency update

## Phase 2

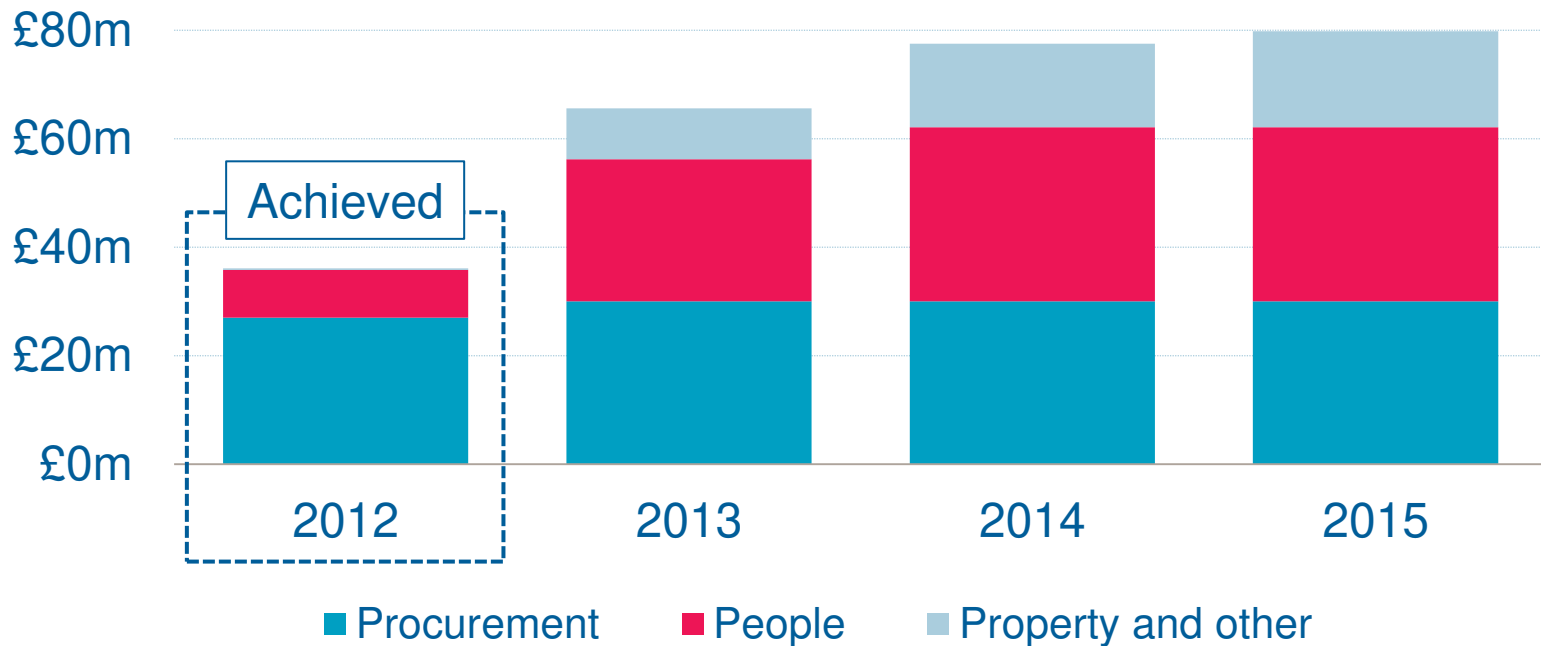
£50m annual savings target by 2015

- Good progress made in 2012
- Rationalisation in UK construction
- Unified operating model in US construction
- Tactical cost reduction in Support Services

# Cost efficiency phasing

Phases 1&2

£80m total annual savings target



# Rail operations in Mainland Europe

- Successful businesses for the Group in the past
- Investment programmes have been curtailed
- Having only rail operations in geographies is not consistent with Group strategy
- Divesting all of our Mainland European rail businesses
- Sold the Spanish business to its management



# Rail business a key strength in strategy

- Global rail market is large and growing
- Key element of our future development
- Major projects won
  - Denver, Melbourne, Qatar Rail
- Increasing opportunities to combine our capabilities from design to delivery
- Major projects remain at the heart of global rail strategy





# Facilities management business

- Exploring our options
- WorkPlace grown into a standalone business
- May generate more value by selling and redeploying capital to support our strategy





# Strategy

## Leveraging key strengths

Local presence in multiple geographies



End to end asset knowledge

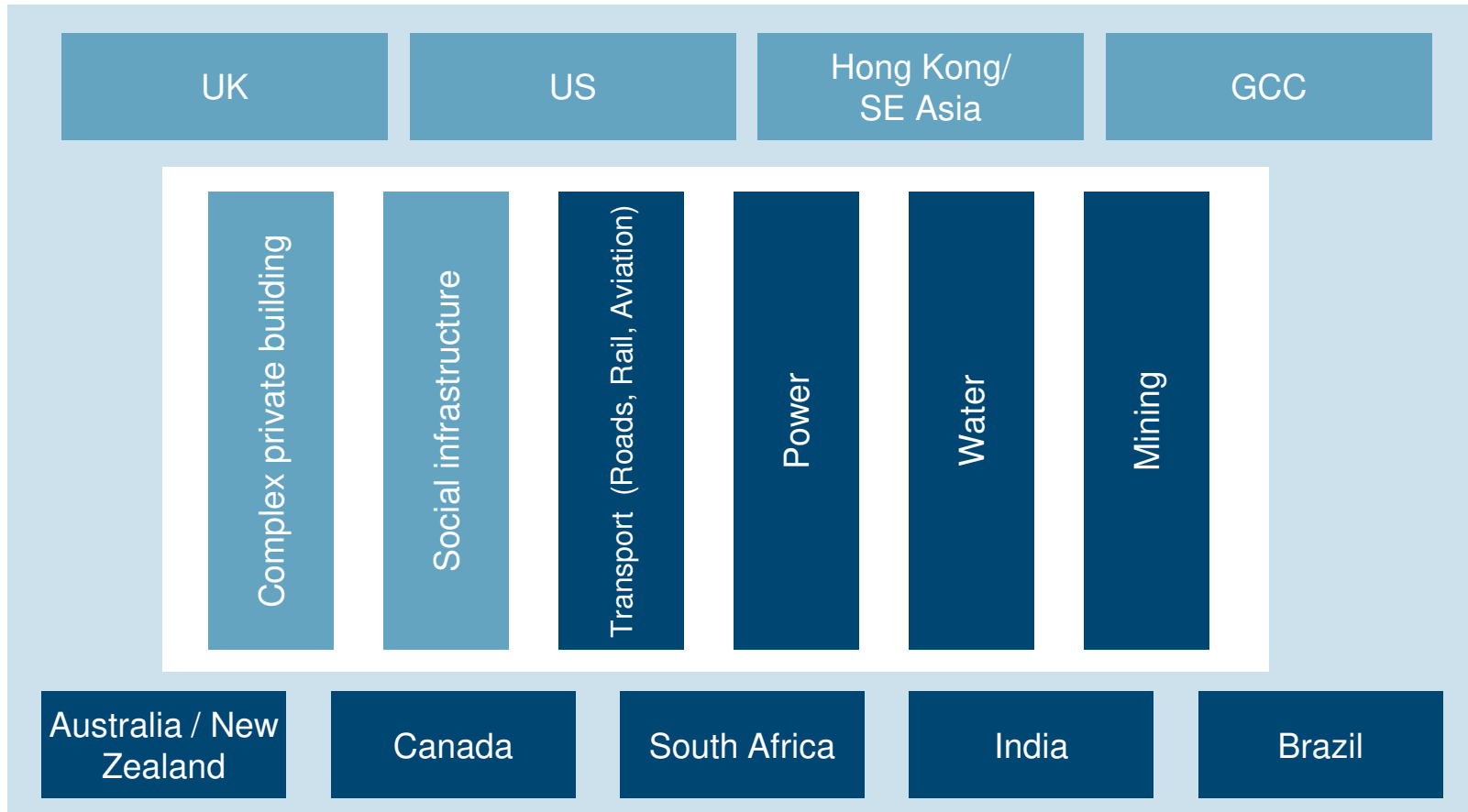


Skills as an investor and developer



# Strategy

## Target geographies and market sectors



**Dark blue box** = Target geographies and market sectors for additional growth

# Strategic developments

## Local presence

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- Highways maintenance a core strength in the UK
- Australia a target market
- State government outsourcing of highways maintenance in Australia
- Specialist team from the UK to join Parsons Brinckerhoff to target these opportunities



# Strategic developments

## End to end asset knowledge

- Reorganising around customers in market sectors
- Breaking down divisional structures
- Creating the 'country model'
- Arming our people with full extent of our expertise
- Starting to deploy across our footprint



# Strategic developments

## Skills as an investor and developer

---

- Outstanding year for Investments business
- Diversified into student accommodation, energy-from-waste and offshore transmission assets, reducing reliance on government PFI
- Developed funds management business
  - First close achieved
  - First investment committed



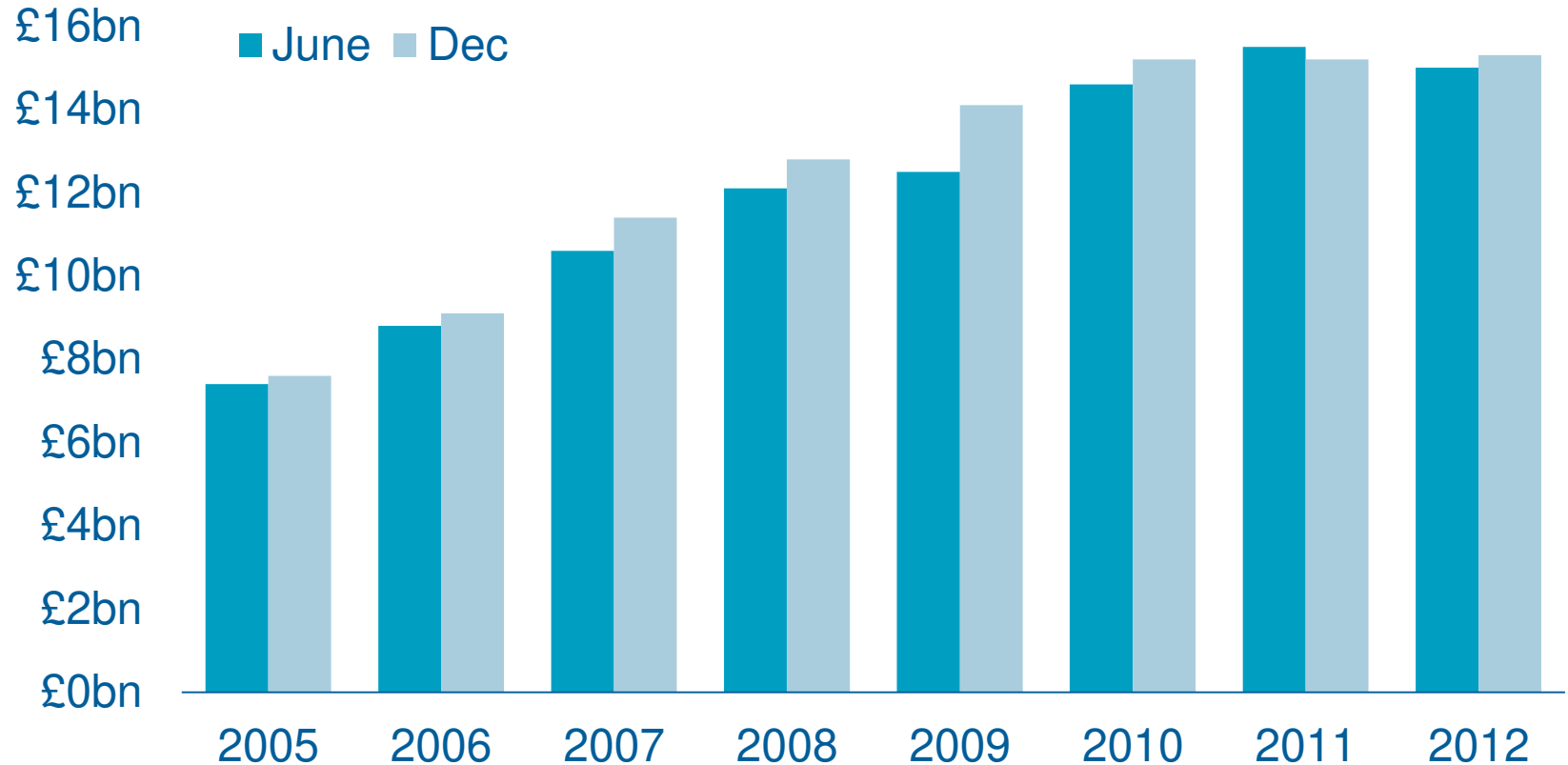
# Summary

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- Continue to see 2013 as a difficult year for Construction Services
  - Responding with effective actions
- Transition of the Group from construction to target geographies and market sectors
  - Better growth dynamics and return characteristics
  - Improving resilience
- Focus on pace and momentum
- Cautious for the near term, but confident for the medium term

# APPENDIX

# Order book





# Performance by sector

£m	FY 2012	FY 2011
Professional Services	98	87
Construction Services	122	169
Support Services	52	67
Infrastructure Investments	69	43
Corporate costs	(32)	(35)
<b>Profit from operations*</b>	<b>309</b>	<b>331</b>
Net interest income	1	3
<b>Pre-tax profit*</b>	<b>310</b>	<b>334</b>

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

# Pensions charge

£m	FY 2012	FY 2011
Defined benefit schemes:		
P&L charge – service cost	48	52
P&L credit – past service credit	(2)	(2)
Expected return on assets	(137)	(143)
Interest cost on scheme liabilities	137	146
Net finance charge	-	3
Net pension charge*	46	53
Defined contribution schemes:		
P&L charge	56	55
<b>Total charge*</b>	<b>102</b>	<b>108</b>

\* before non-underlying items

# Underlying effective tax rate

£m	FY 2012				FY 2011			
	PBT	Tax	PAT	<i>Tax rate (%)</i>	PBT	Tax	PAT	<i>Tax rate (%)</i>
Group, excluding JVs & associates*	213	(70)	143	<b>32.9</b>	259	(91)	168	<b>35.1</b>
JVs & associates*	110	(13)	97	<b>11.8</b>	89	(14)	75	<b>15.7</b>
Aggregate*	323	(83)	240	<b>25.7</b>	348	(105)	243	<b>30.2</b>

\* before non-underlying items

# Group balance sheet

£m	Dec 2012	Dec 2011
Goodwill and intangible assets	1,372	1,518
Current assets <sup>#</sup>	2,047	2,154
Current liabilities and provisions <sup>#</sup>	(2,824)	(3,239)
Working capital <sup>#</sup>	(777)	(1,085)
Net cash (excluding PPP subsidiaries)	35	340
PPP subsidiaries – financial assets	542	457
PPP subsidiaries – non-recourse net borrowings	(368)	(332)
Retirement benefit obligations (net of tax)	(258)	(200)
Other assets	1,209	973
Other liabilities	(449)	(412)
<b>Equity holders' funds</b>	<b>1,306</b>	<b>1,259</b>

<sup>#</sup> excluding cash/borrowings, tax and derivatives

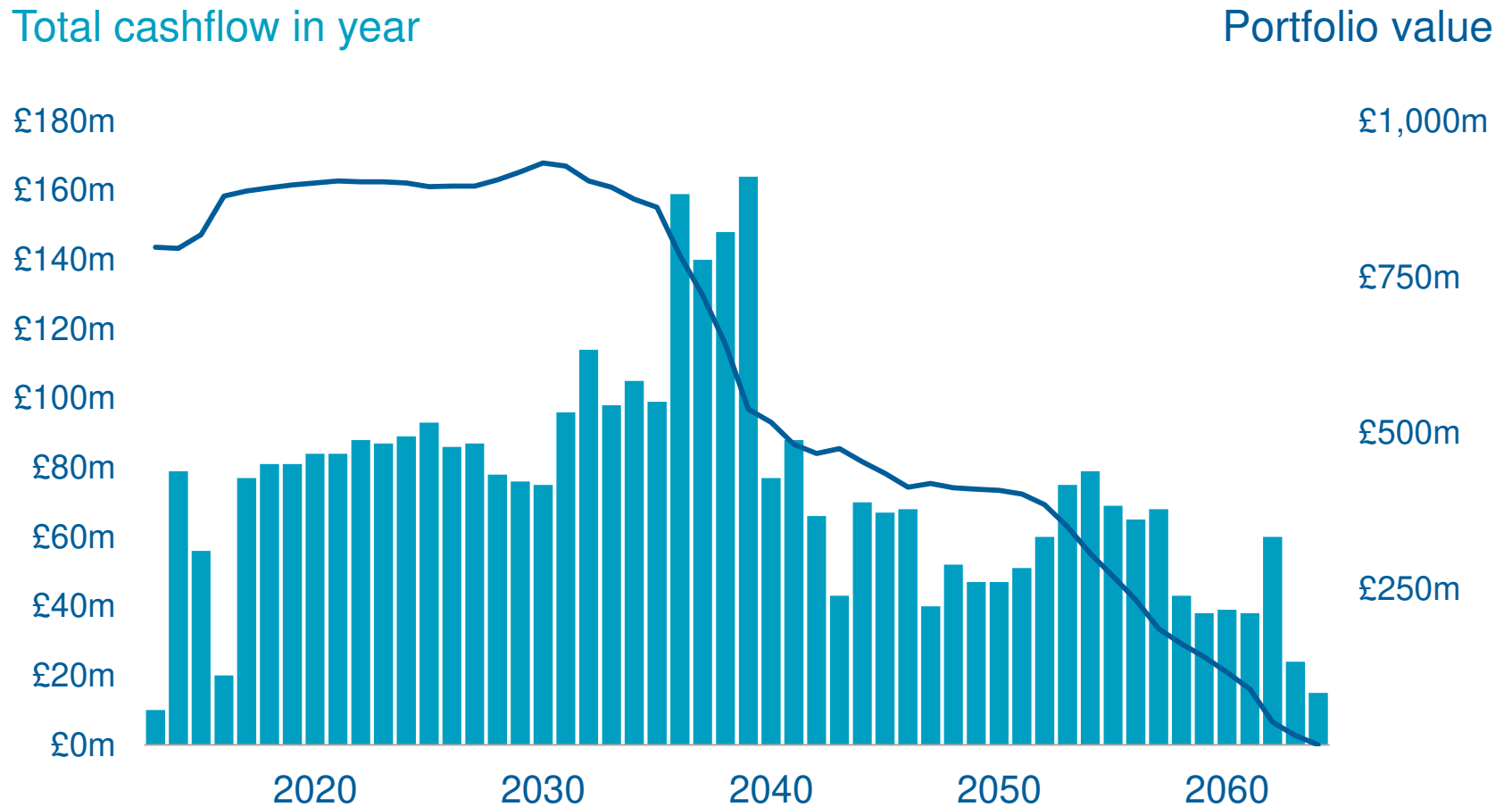
# Balance sheet cash movement

£m	Dec 2012	Dec 2011
Opening net cash <sup>†</sup>	340	518
Cash (used in)/generated from operations <sup>†</sup>	(218)	35
Dividends from JVs and associates (inc. Barking)	58	59
Capital expenditure and financial investment	(9)	(92)
Acquisitions and disposals (net of net cash acquired)	(4)	(63)
Dividends, interest and tax paid	(114)	(115)
Exchange adjustments	(17)	(2)
Other items	(1)	-
<b>Closing net cash<sup>†</sup></b>	<b>35</b>	<b>340</b>
PPP subsidiaries non-recourse net debt	(368)	(332)
Closing net cash	(333)	8

<sup>†</sup> treating PPP subsidiaries as joint ventures/associates

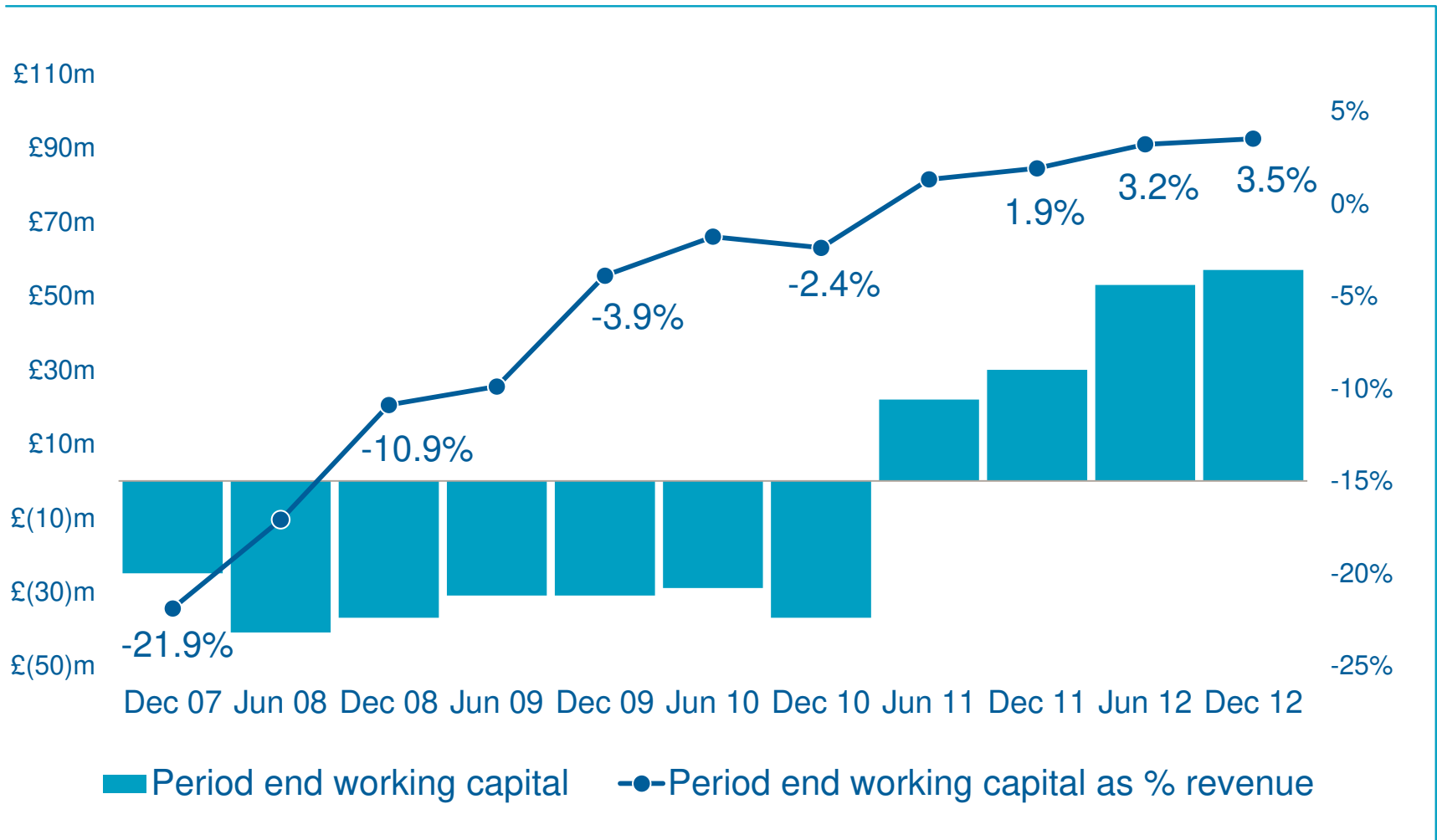
# PPP portfolio over time

## Cashflow and value



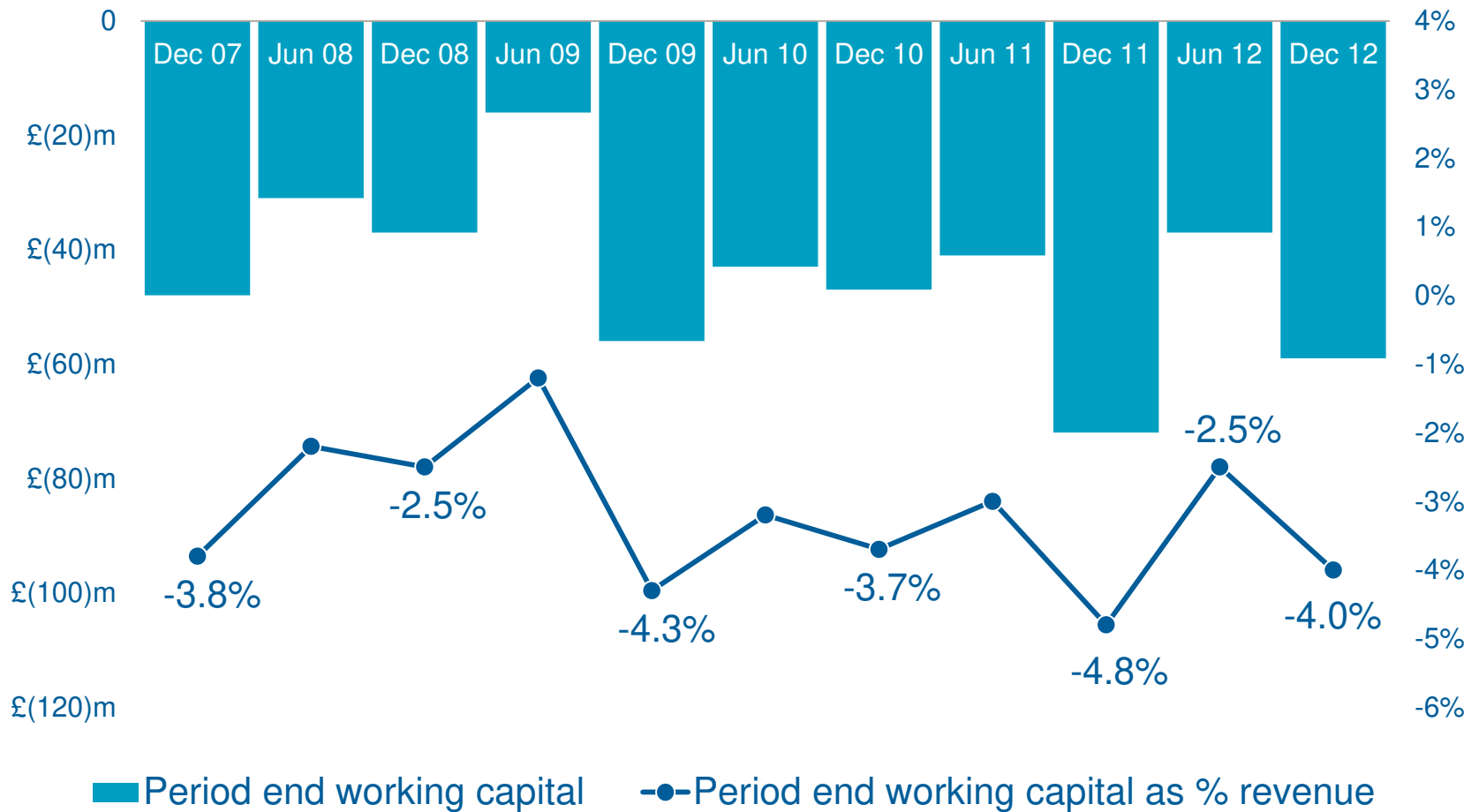
# Working capital – Professional Services

## Continuing on trend to 5% of revenue



# Working capital – Support Services

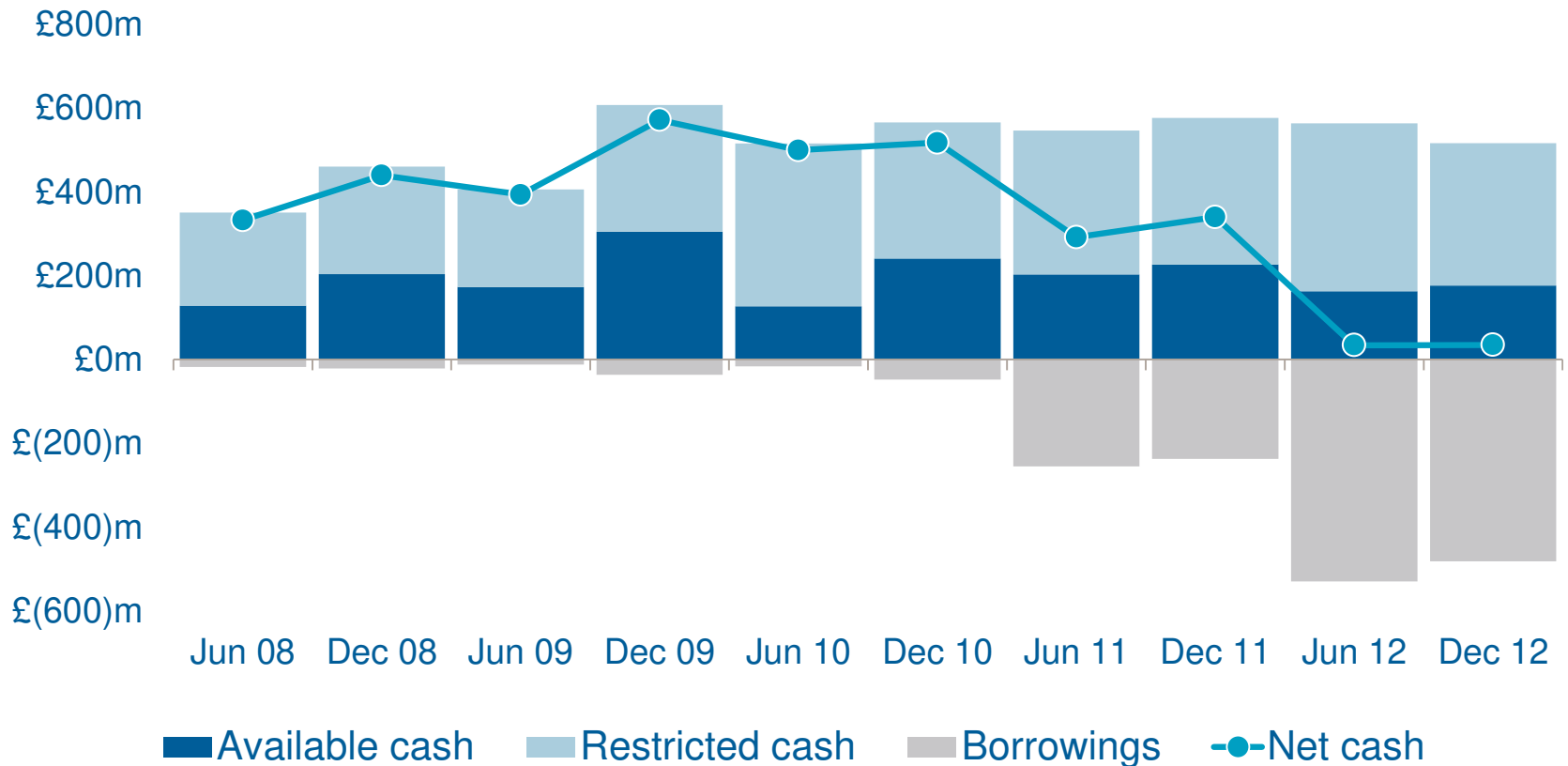
Slightly negative – likely to be neutral to positive in 2013





# Analysis of net cash balances†

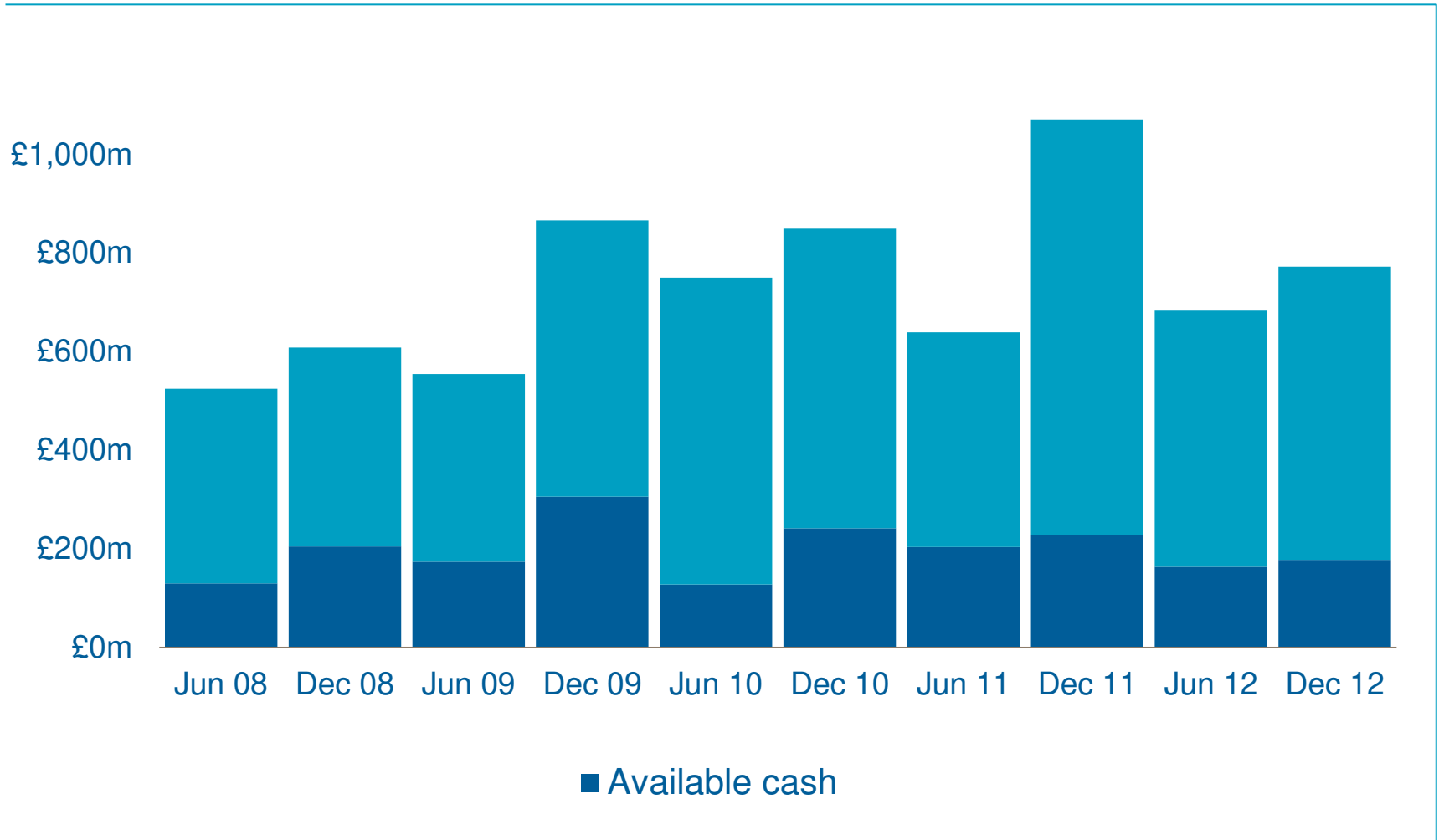
## Mixture of available and restricted cash



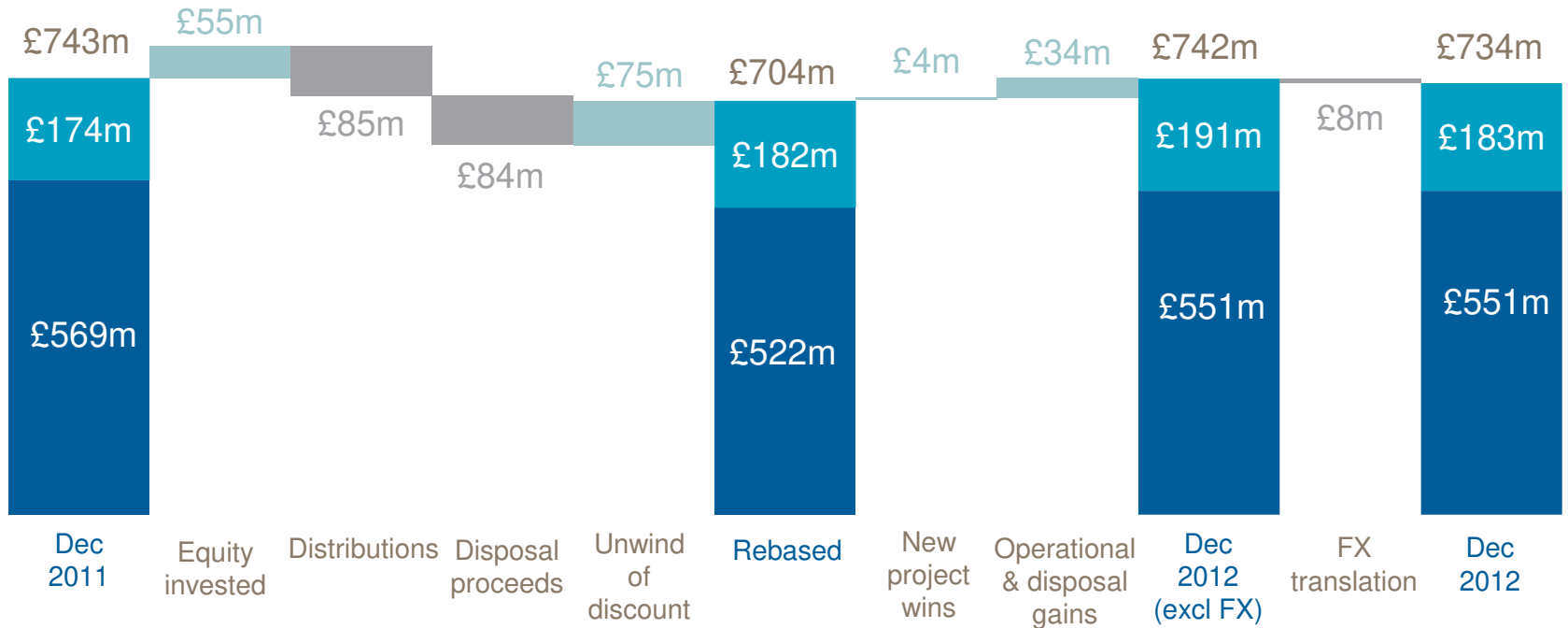
† excluding net debt of PPP subsidiaries

# Available funds

## Maintaining headroom



# PPP portfolio valuation roll-forward – FY 2012



■ UK/Singapore ■ US

## Pre-tax discount rates

UK	9.5%
US	12.0%
Combined	10.1%

# Dividends per share

