Balfour Beatty

2012 full-year results presentation

7 March 2013

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IAN TYLER

Chief Executive Officer

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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

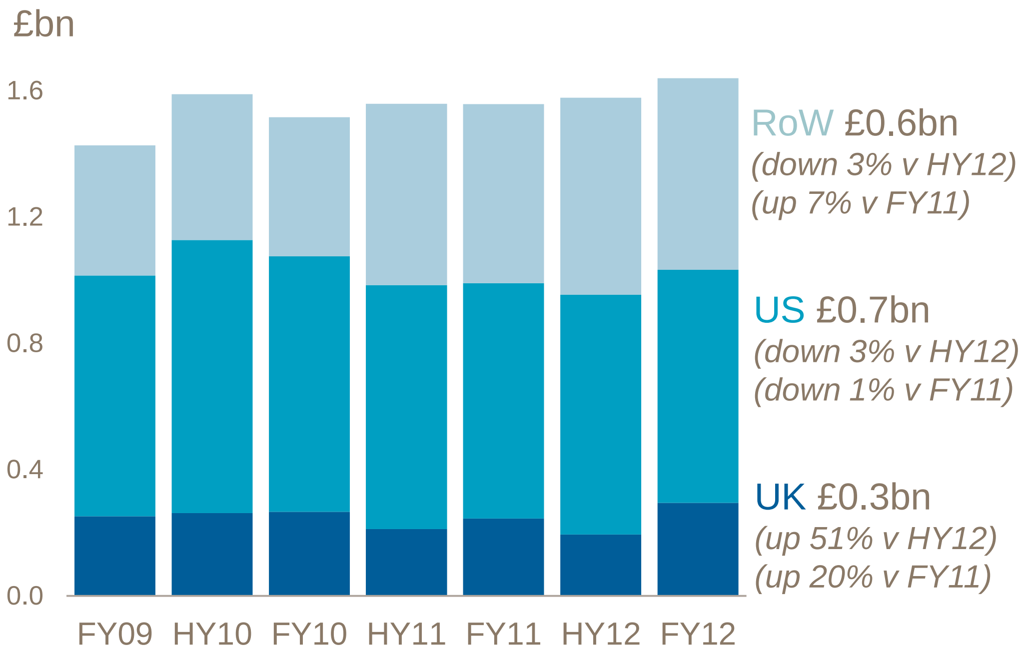
Share in order book

	Single-capability markets	Economic infrastructure
2012	**37%**	**63%**
2011	**41%**	**59%**
2009	**57%**	**43%**

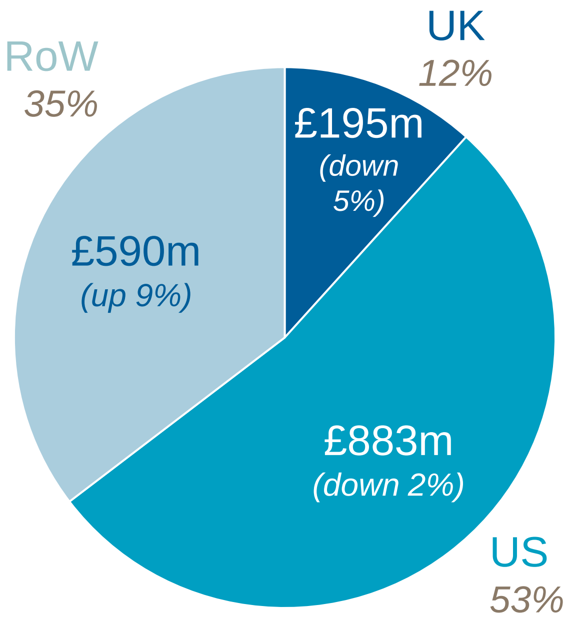
DUNCAN MAGRATH

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

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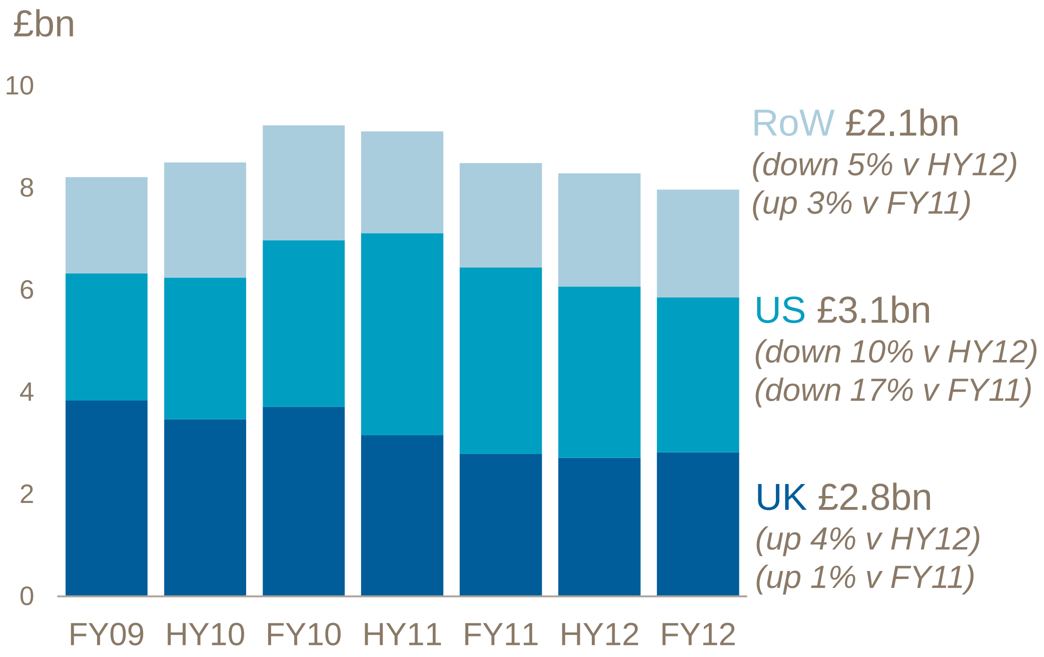
Professional Services

	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%		

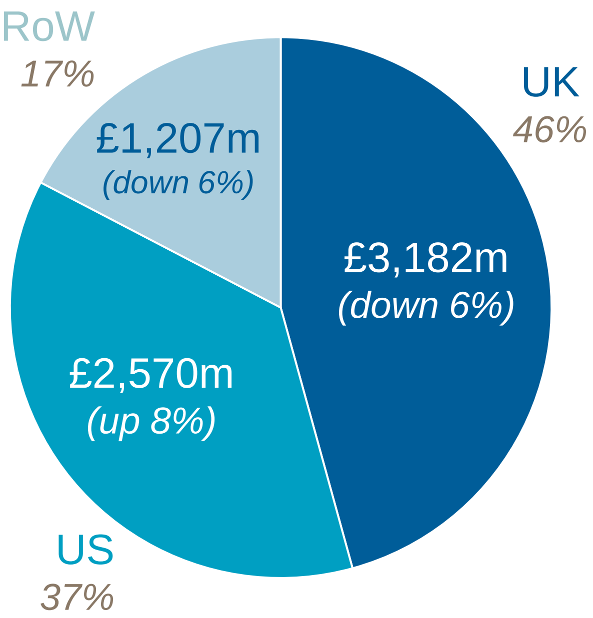
** before non-underlying items*

- 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



Order book
£8.0bn
(down 4% v HY12: £8.3bn)
(down 6% v FY11: £8.5bn)



Revenue
£6,959m down 1%
(FY11: £7,050m)

Percentage changes relative to FY11

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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

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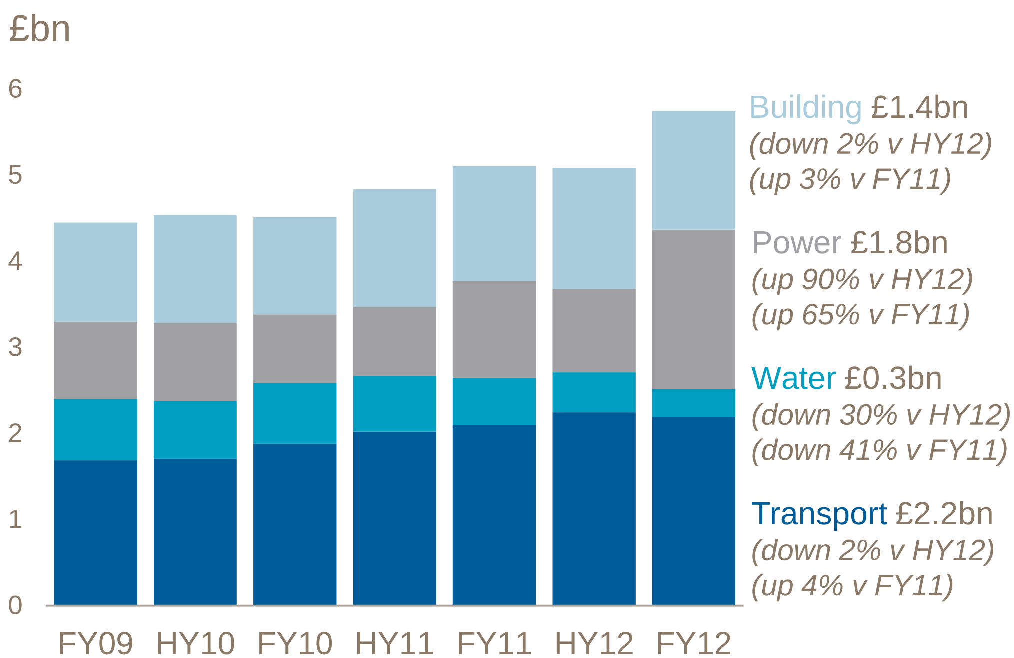
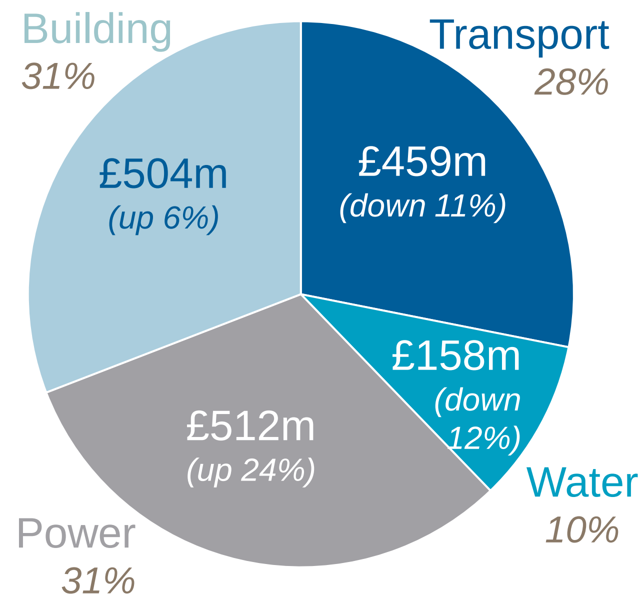
Support Services – FY 2012 by market
Expected increases in power



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

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Support Services

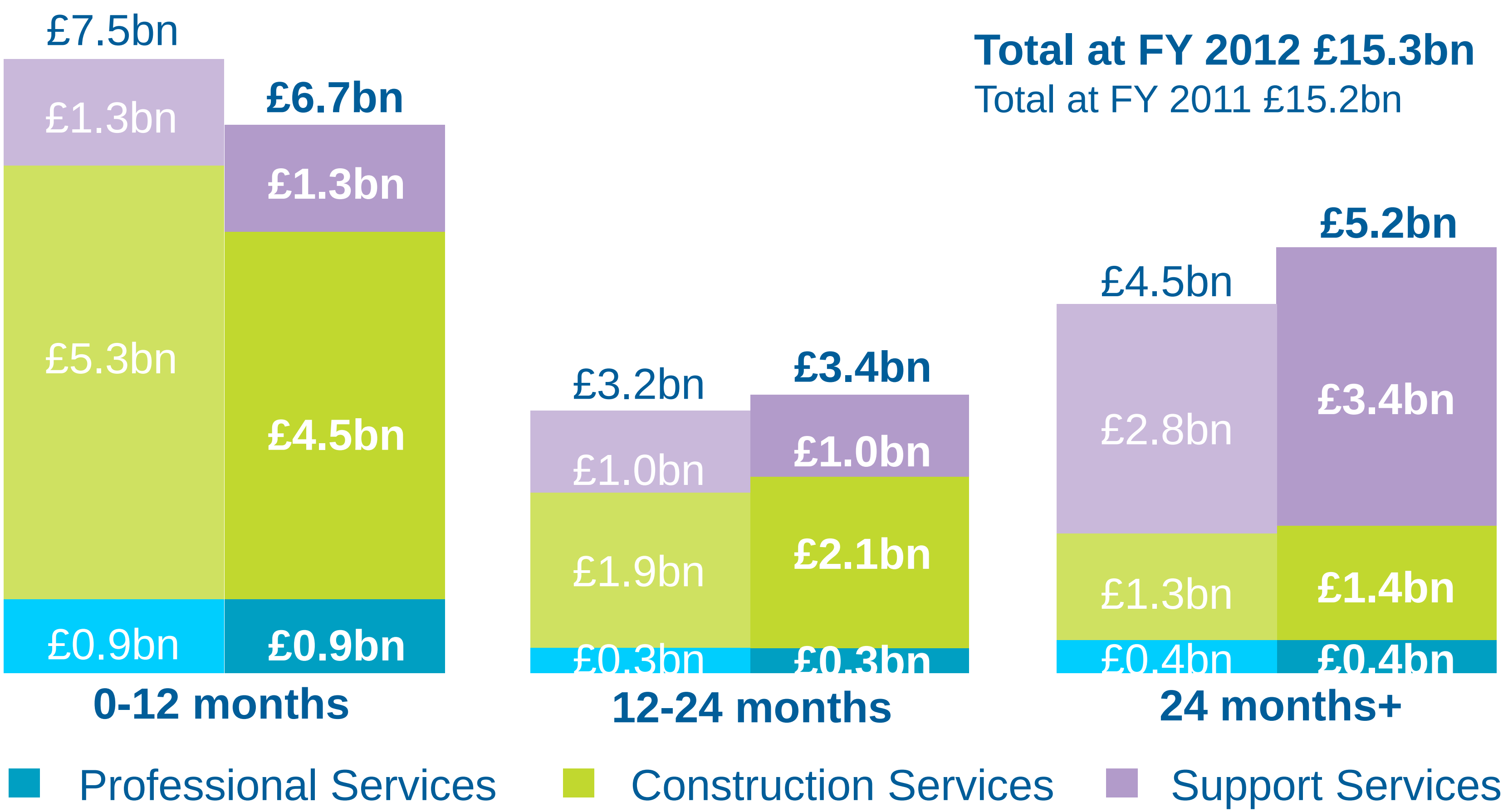
	FY 2012	FY 2011	Actual growth	Constant currency
Order book	£5.7bn	£5.1bn	+12%	+12%
Revenue	£1,633m	£1,584m	+3%	+3%
Profit*	£52m	£67m	-22%	-22%
Margin %	3.2%	4.2%		

** 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 Group	FY 2012 JVs & assoc	FY 2012 Total	FY 2011 Group	FY 2011 JVs & assoc	FY 2011 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
Investments operating profit*	**29**	**40**	**69**	**-**	**43**	**43**
Subordinated debt interest income			*24*			*25*
PPP subsidiaries' net interest			*4*			*3*
Investments pre-tax result*			**97**			**71**
*Investments post-tax result**			*91*			*64*

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

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Infrastructure Investments

- 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)
Net investment income		**1**	**3**

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

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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%
Difference	**0.65%**	**0.35%**	***0.40%***	**0.70%**
Impact on reported pension net finance cost	£17m	£10m	*£13m*	£21m

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

Mainland European rail restructuring

- 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

- 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

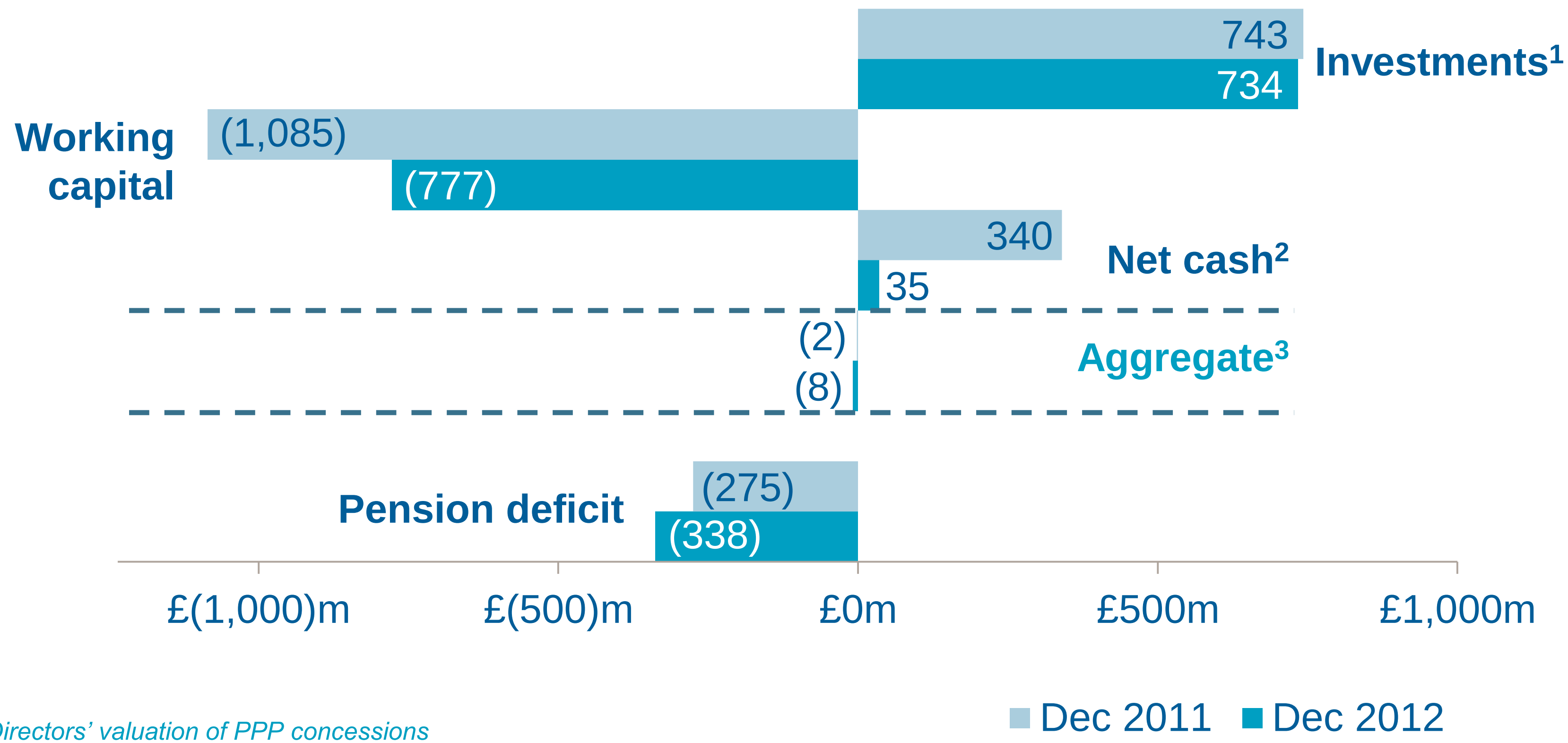
£m	
Post-acquisition integration, reorganisation and other costs	(9)
Write-down of investment in Exeter International Airport	(12)
Cost of implementing UK shared service centre	(4)
Other non-underlying items	**(25)**
Amortisation of acquired intangible assets	(45)
Other non-underlying items before tax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

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
	152	**294**
Pension deficit payments	(61)	(58)
Working capital increase	(310)	(201)
Cash (used in)/generated from operations	**(219)**	**35**
Net capex and purchase of intangibles	(53)	(75)
	(272)	(40)

** before non-underlying items*

Balance sheet elements
Changing shape, remains in balance



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

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PPP portfolio valuation movements – FY 2012

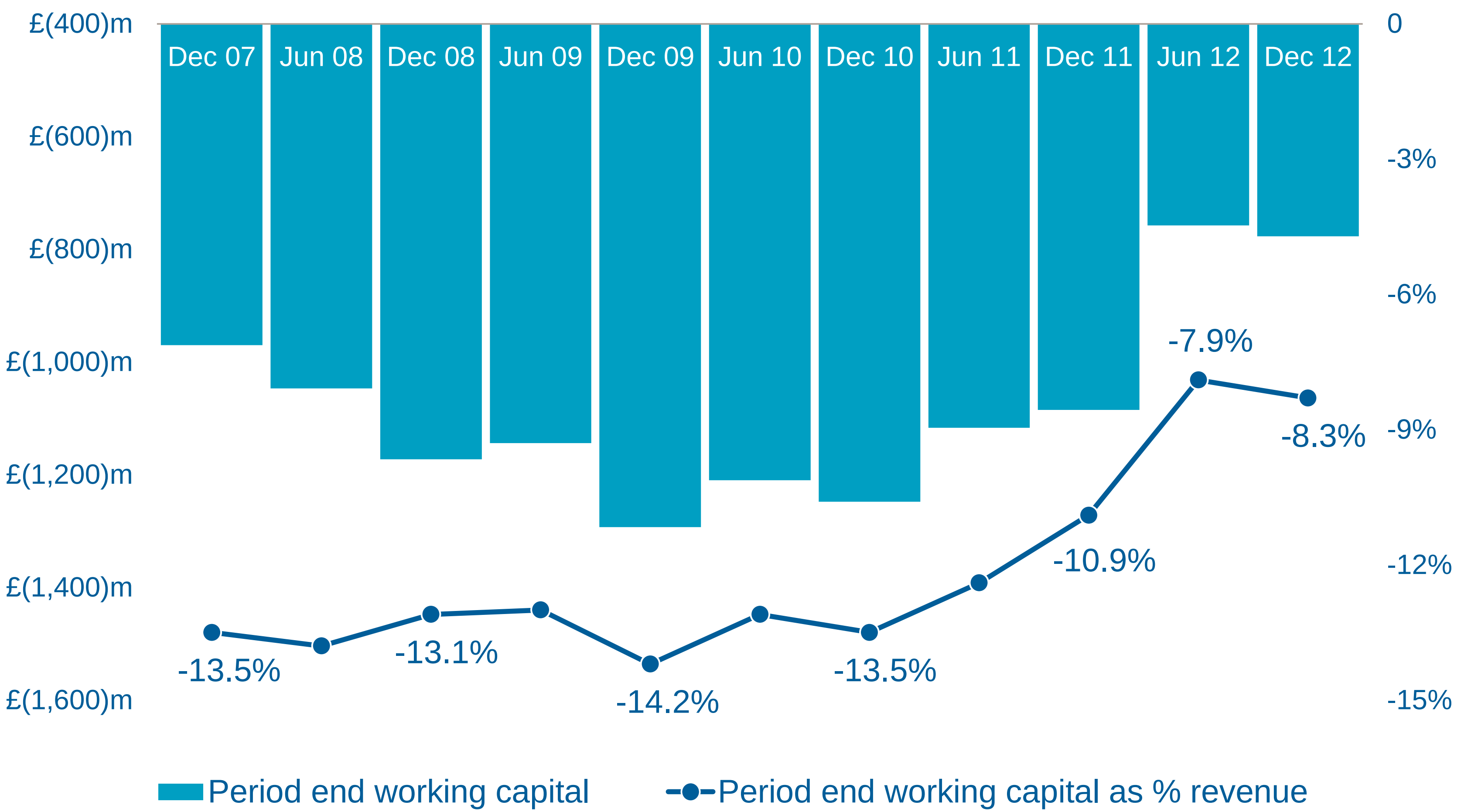
Valuation stable, despite £114m net distributions

£m

Valuation as at December 2011			743
Cash invested		55	
Cash received – distributions	(85)		
– disposals	(84)	(169)	
Net cash received			(114)
Unwind of discount on NPV			75
New project wins			4
Disposal gains, operational gains + FX			26
Valuation as at December 2012			**734**

Working capital – Group

Seasonal improvement offset by impact of volume reductions



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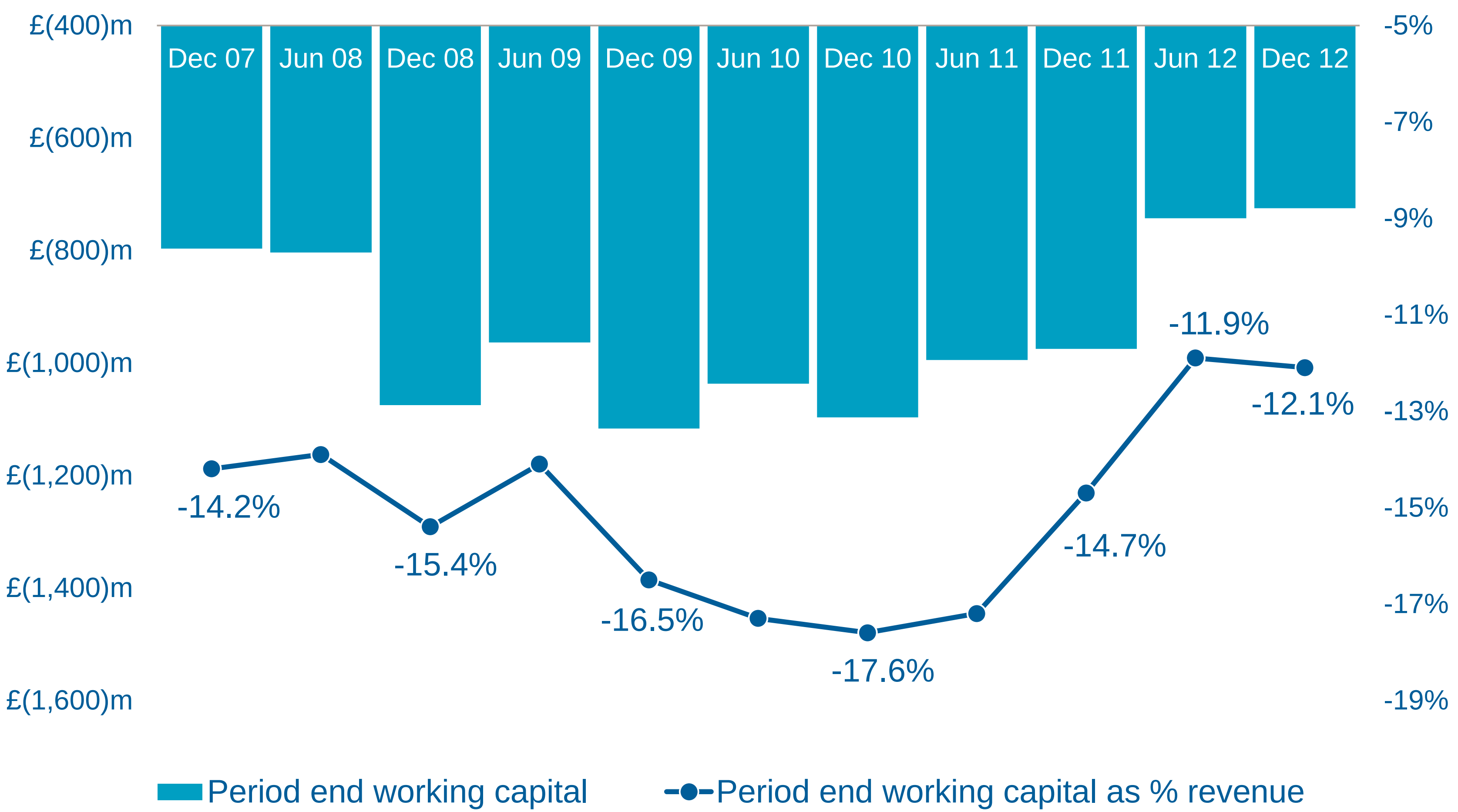
Working capital – Construction Services

In line with June, UK reduction offset by US increase



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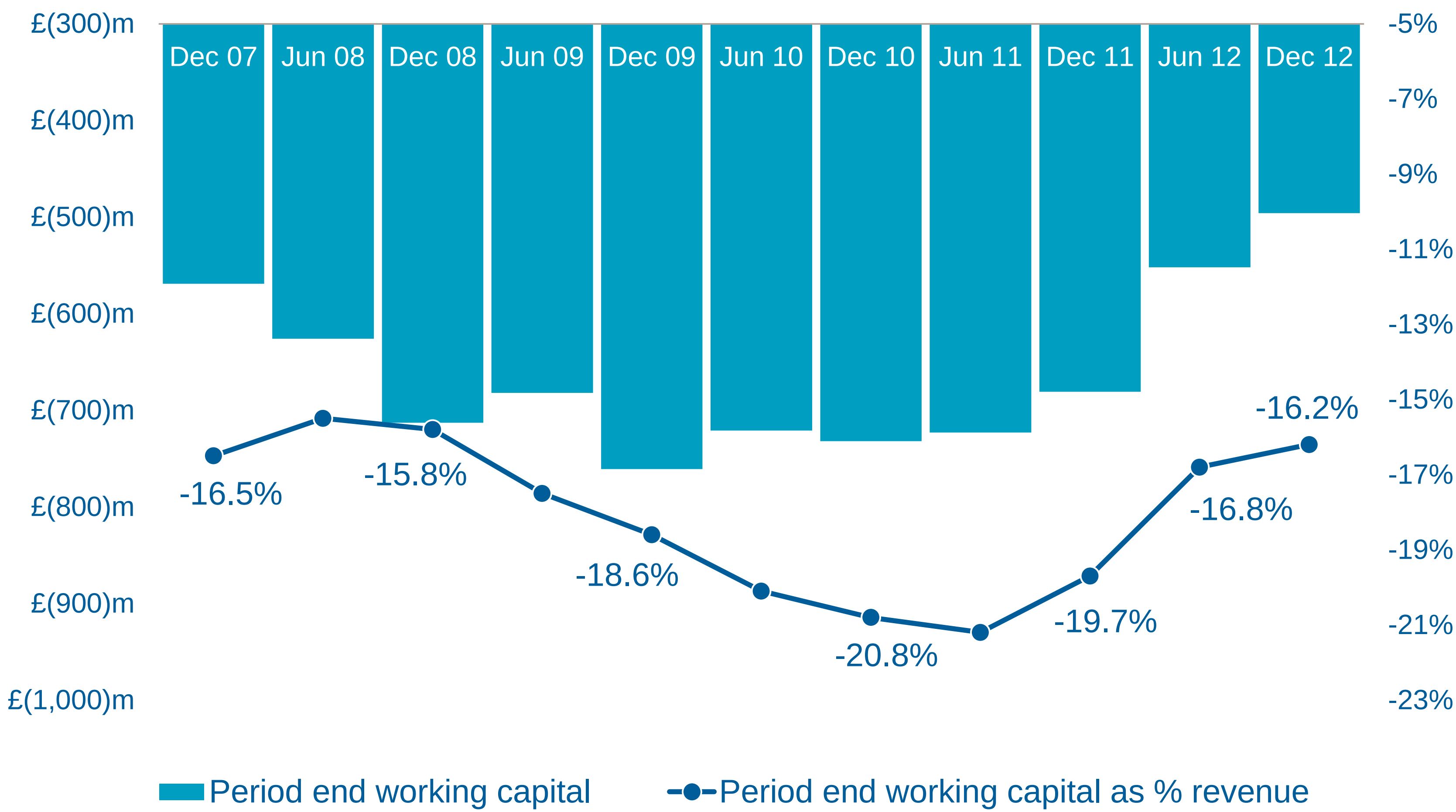
Working capital – Construction Services UK
Reduction from volume and mix



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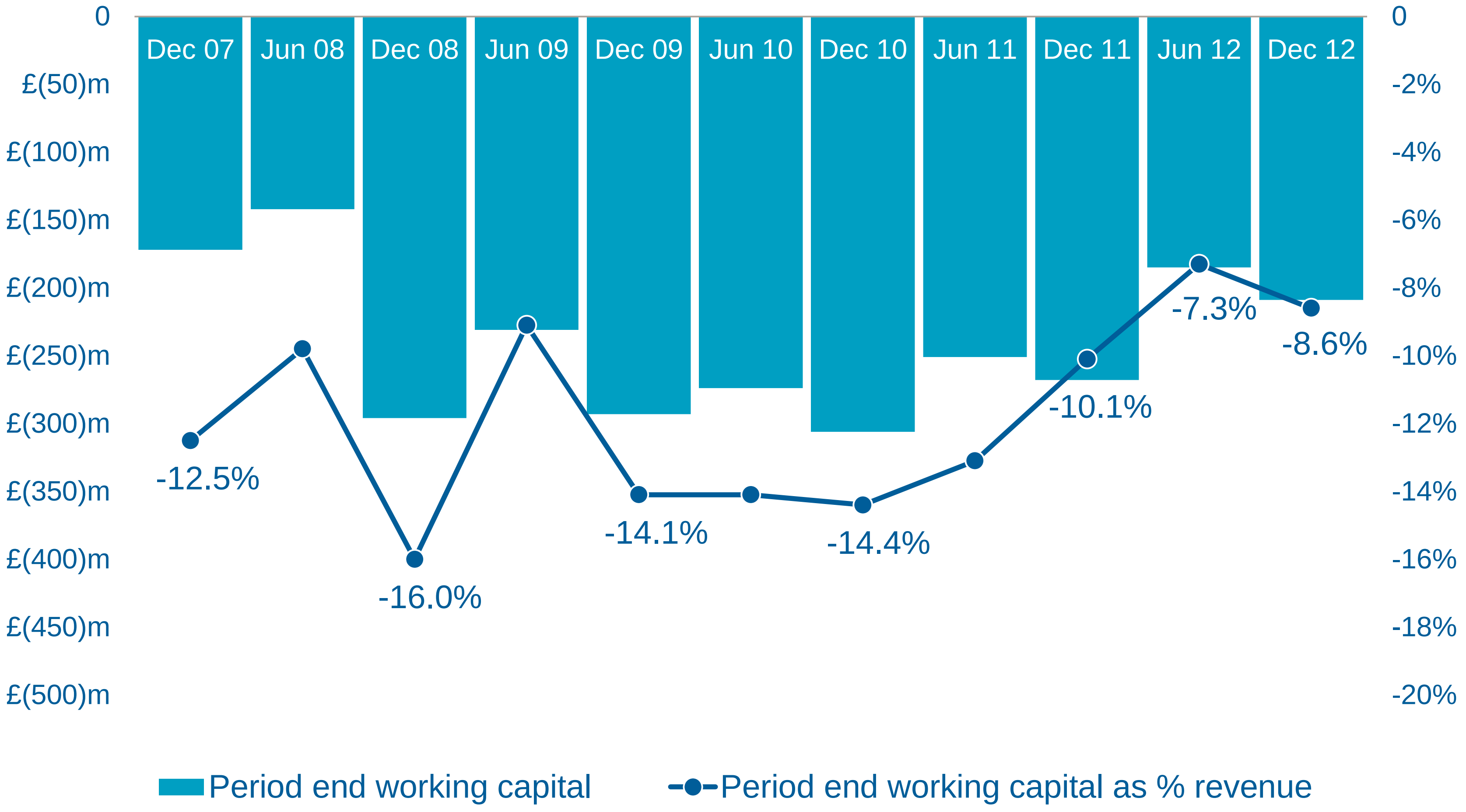
Working capital – Construction Services US

Flattening out, ahead of UK cycle



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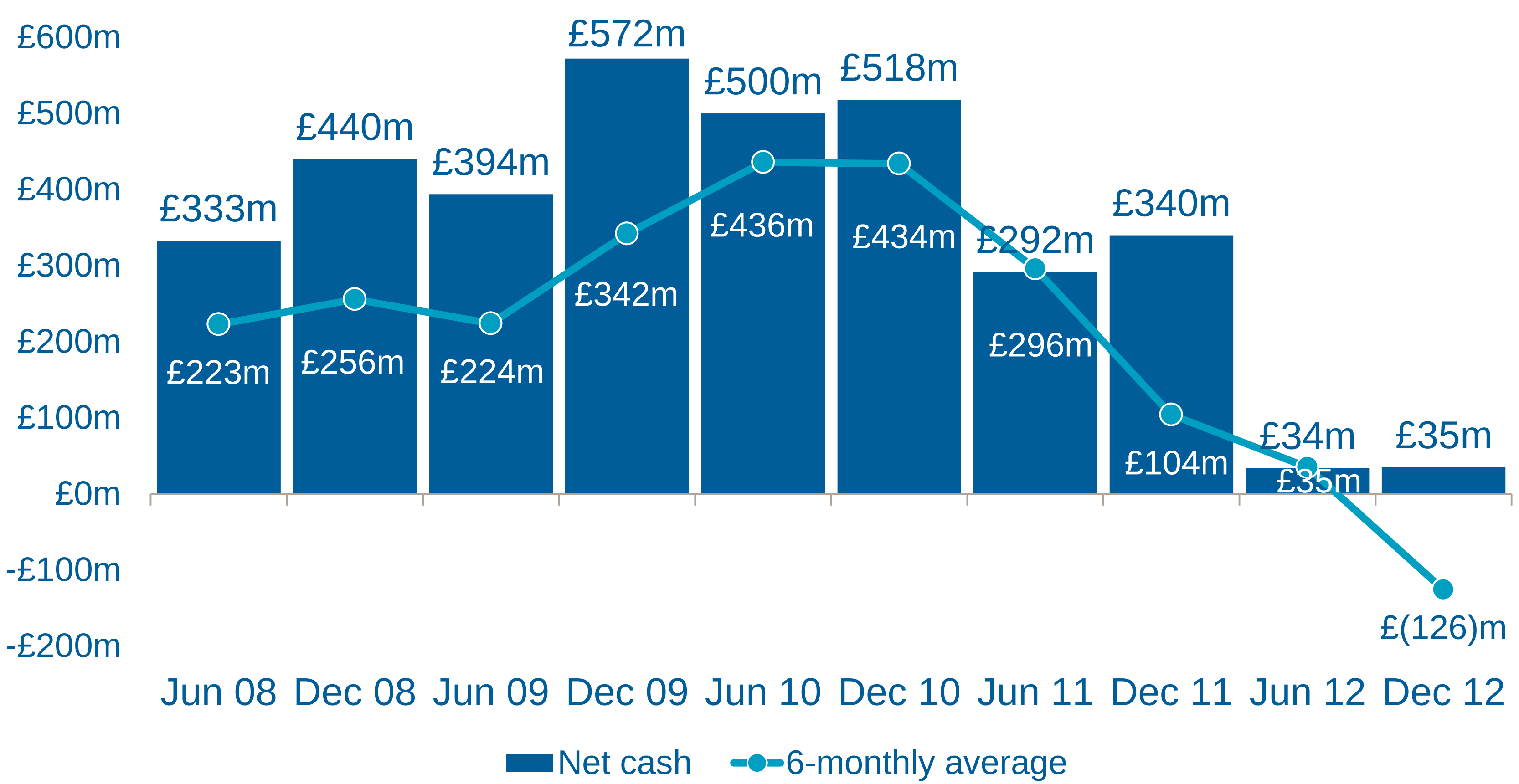
Average net cash/(borrowings)†
Impacted by working capital movements



† excluding net borrowings of PPP subsidiaries (non-recourse)

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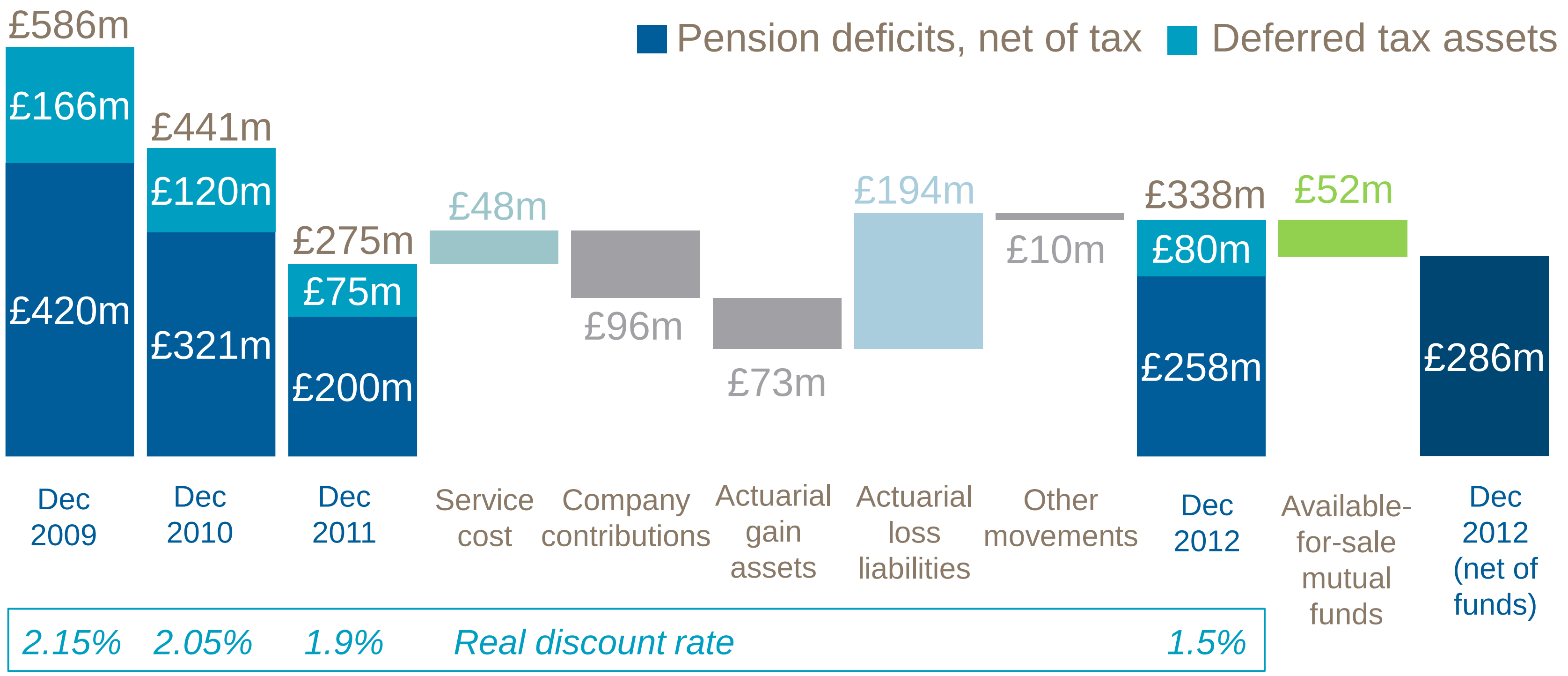
Pensions – balance sheet movement
Increased deficit from reduction in real discount rate



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

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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%

ANDREW MCNAUGHTON

Chief Operating Officer

Introduction

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

Patapsco Wastewater treatment plant, USA

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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

Terminal 2B, London Heathrow

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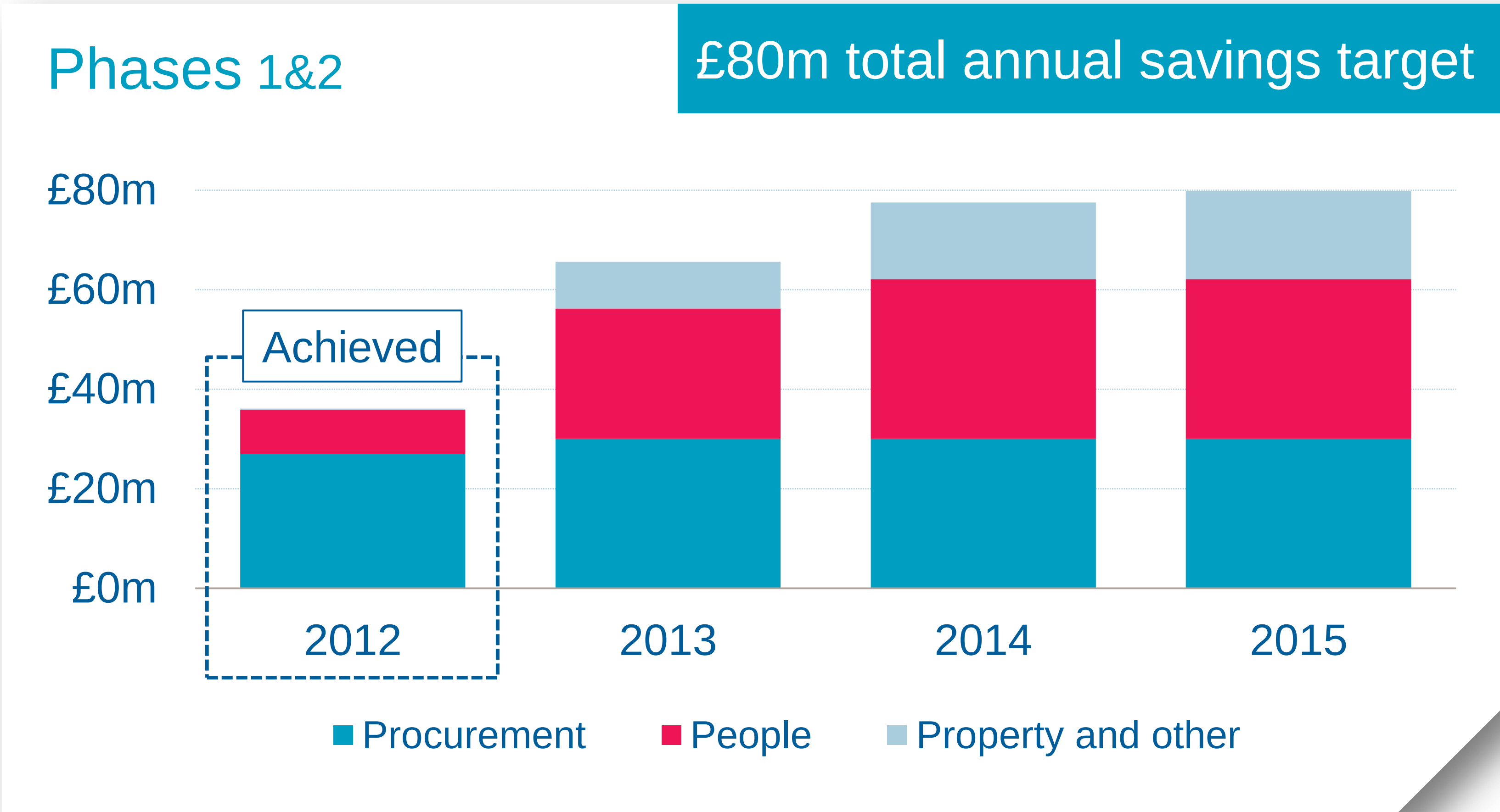
Cost efficiency update

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



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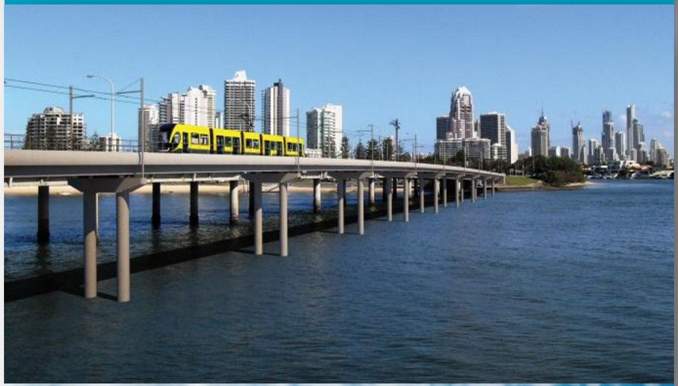
Rail operations in Mainland Europe

- 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

Gold Coast Light Rail, Australia



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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

Kirkcaldy Victoria Hospital, Scotland

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Strategy
Leveraging key strengths

Local presence in multiple geographies	End to end asset knowledge	Skills as an investor and developer
		

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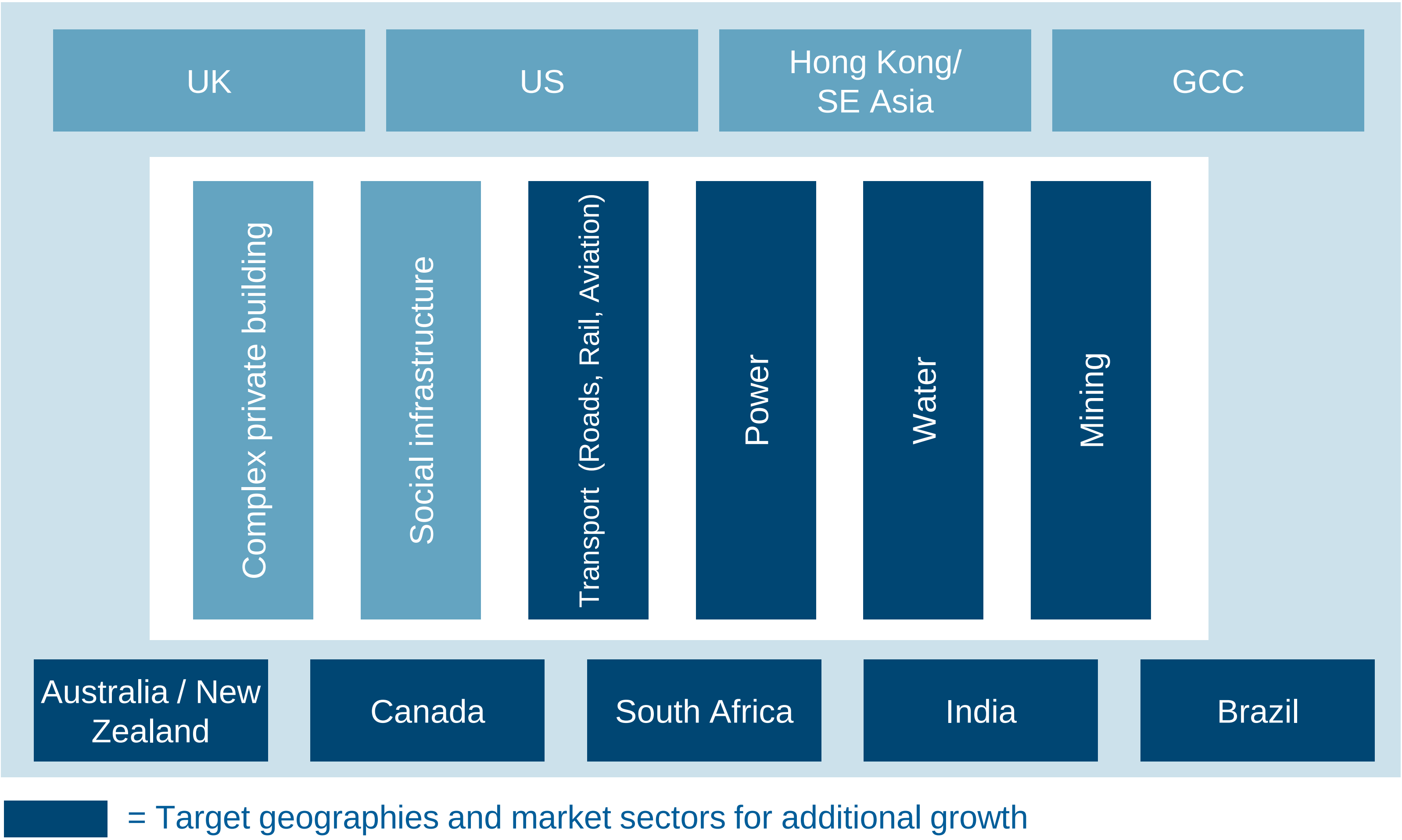
Strategy
Target geographies and market sectors



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Strategic developments
Local presence

- 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

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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

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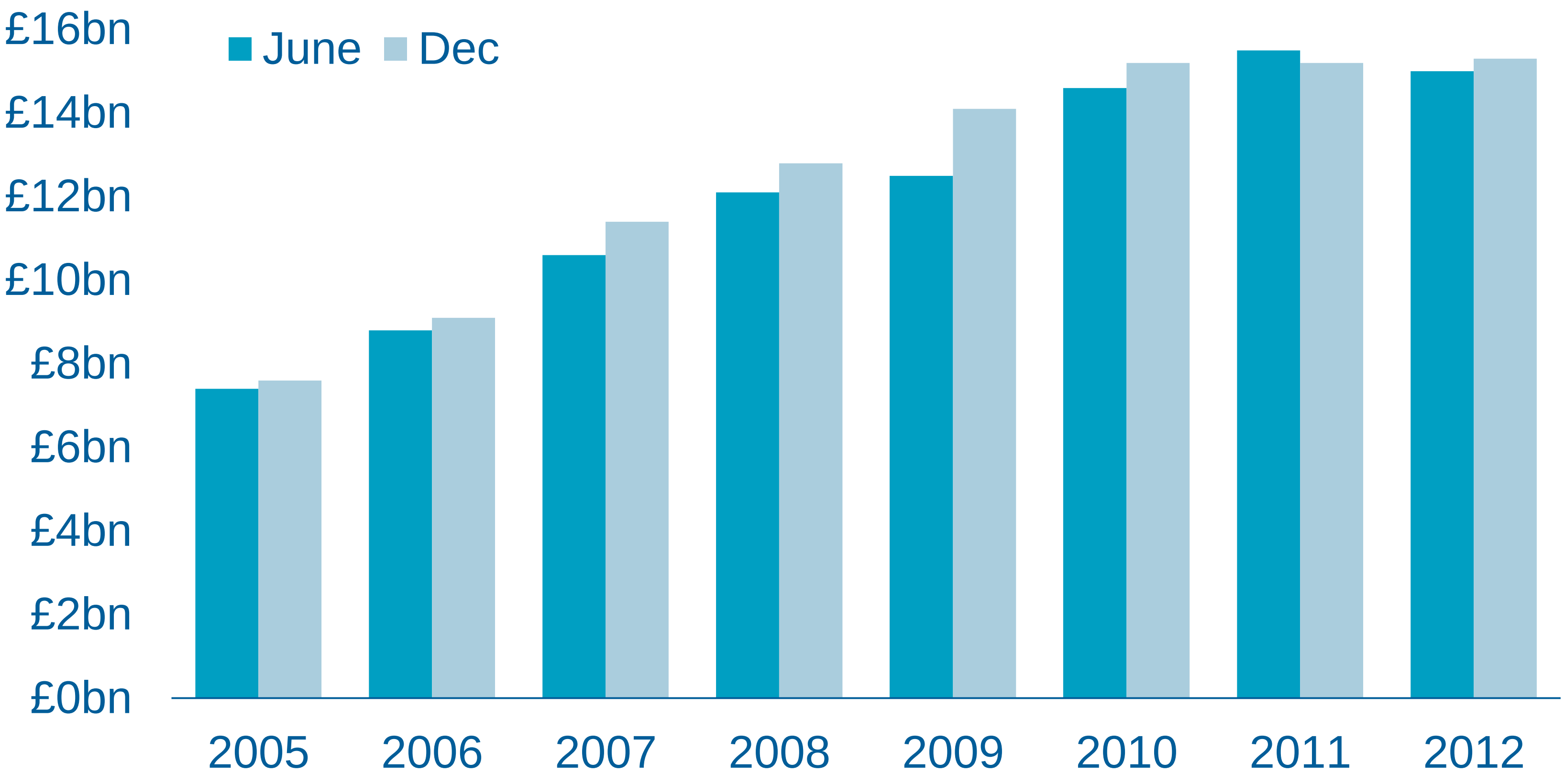
Summary

- 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



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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)
Profit from operations*	**309**	**331**
Net interest income	1	3
Pre-tax profit*	**310**	**334**

** 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
Total charge*	**102**	**108**

** before non-underlying items*

Underlying effective tax rate

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

** before non-underlying items*

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Group balance sheet

£m	Dec 2012	Dec 2011
Goodwill and intangible assets	1,372	1,518
Current assets#	2,047	2,154
Current liabilities and provisions#	(2,824)	(3,239)
Working capital#	(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)
Equity holders' funds	**1,306**	**1,259**

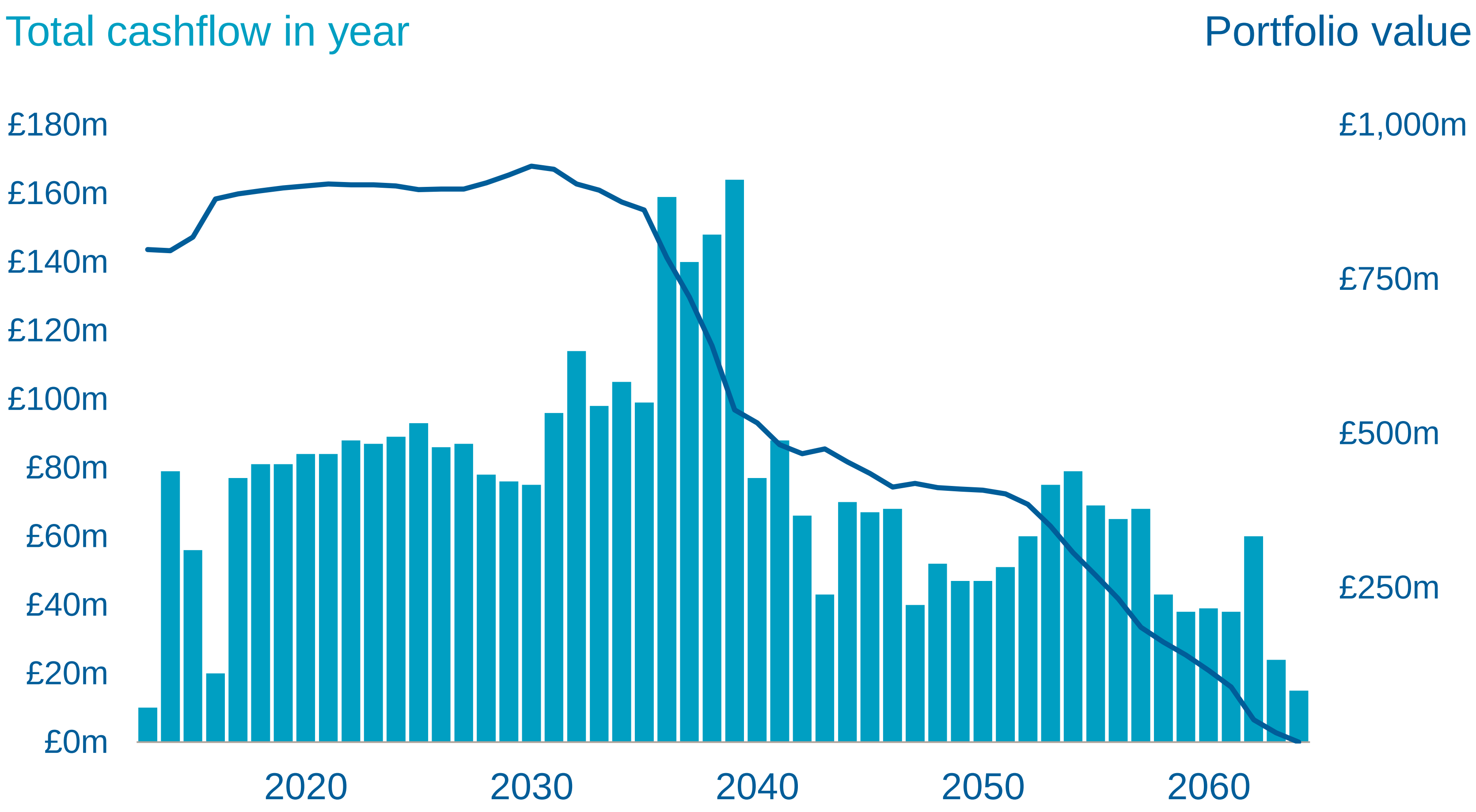
 # excluding cash/borrowings, tax and derivatives

Balance sheet cash movement

£m	Dec 2012	Dec 2011
Opening net cash†	340	518
Cash (used in)/generated from operations†	(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)	-
Closing net cash†	**35**	**340**
PPP subsidiaries non-recourse net debt	(368)	(332)
Closing net cash	(333)	8

† treating PPP subsidiaries as joint ventures/associates

PPP portfolio over time
Cashflow and value



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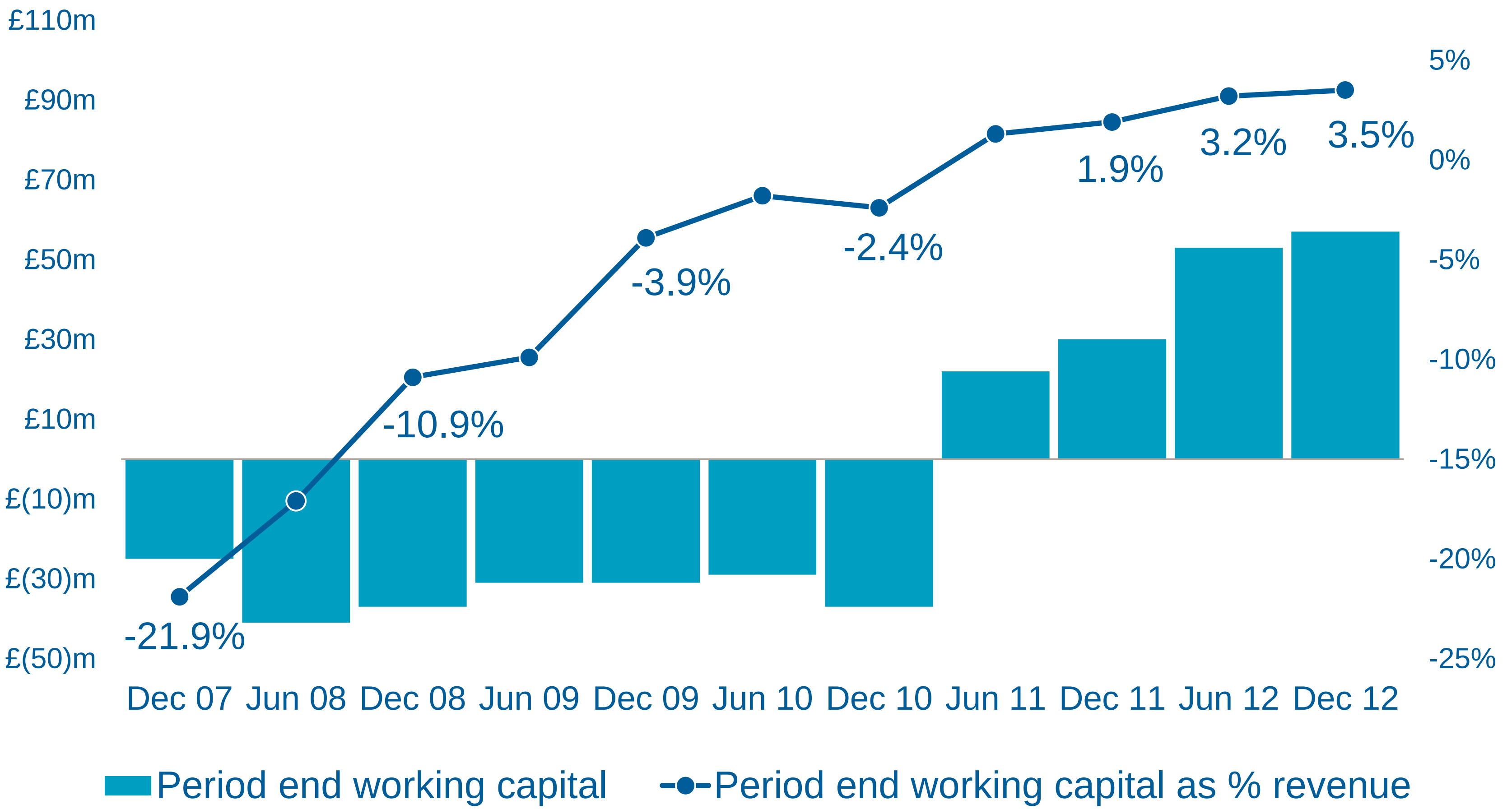
Working capital – Professional Services
Continuing on trend to 5% of revenue



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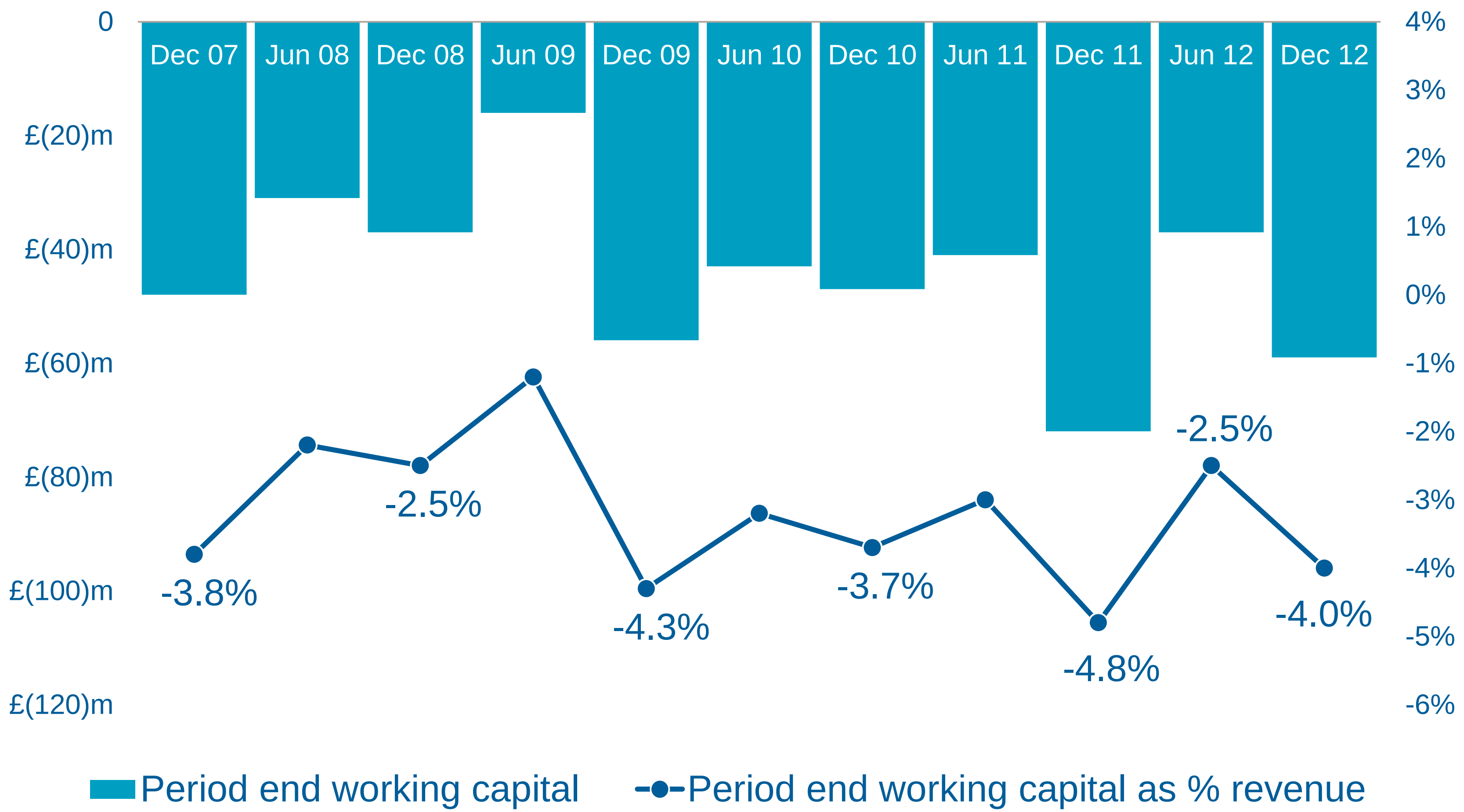
Working capital – Support Services

Slightly negative – likely to be neutral to positive in 2013



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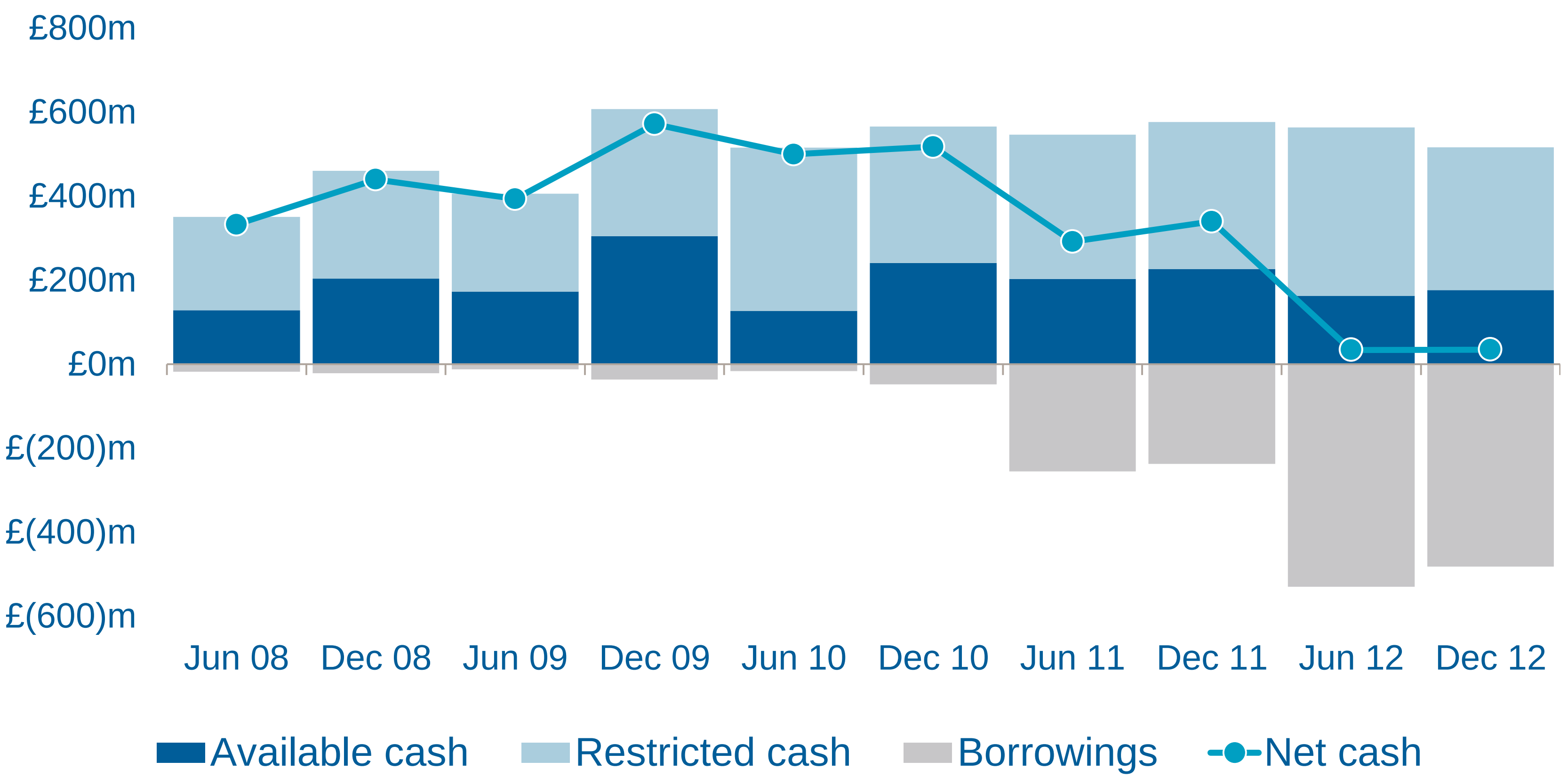
Analysis of net cash balances†

Mixture of available and restricted cash



† excluding net debt of PPP subsidiaries

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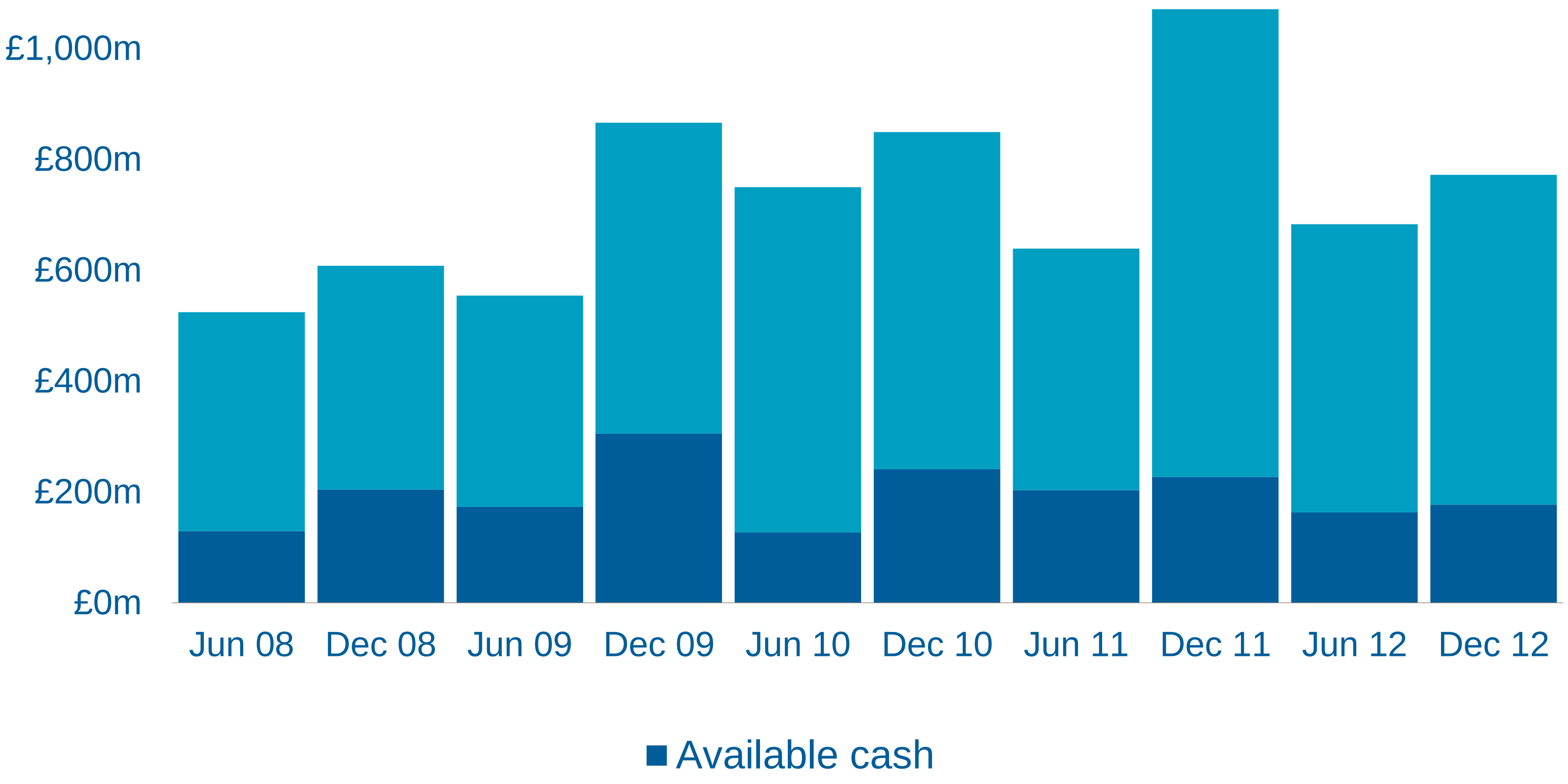
Available funds
Maintaining headroom



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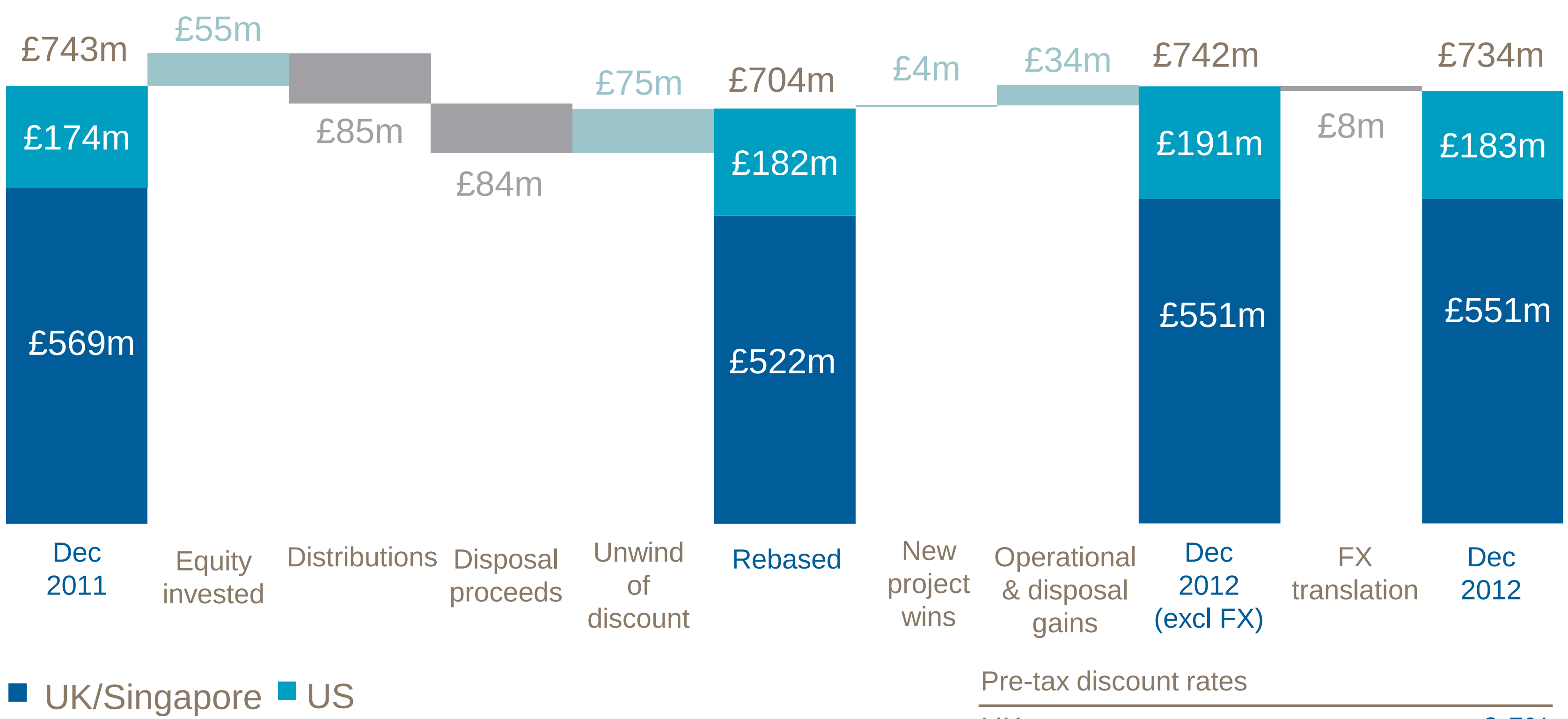
PPP portfolio valuation roll-forward – FY 2012



Pre-tax discount rates	
UK	9.5%
US	12.0%
Combined	10.1%

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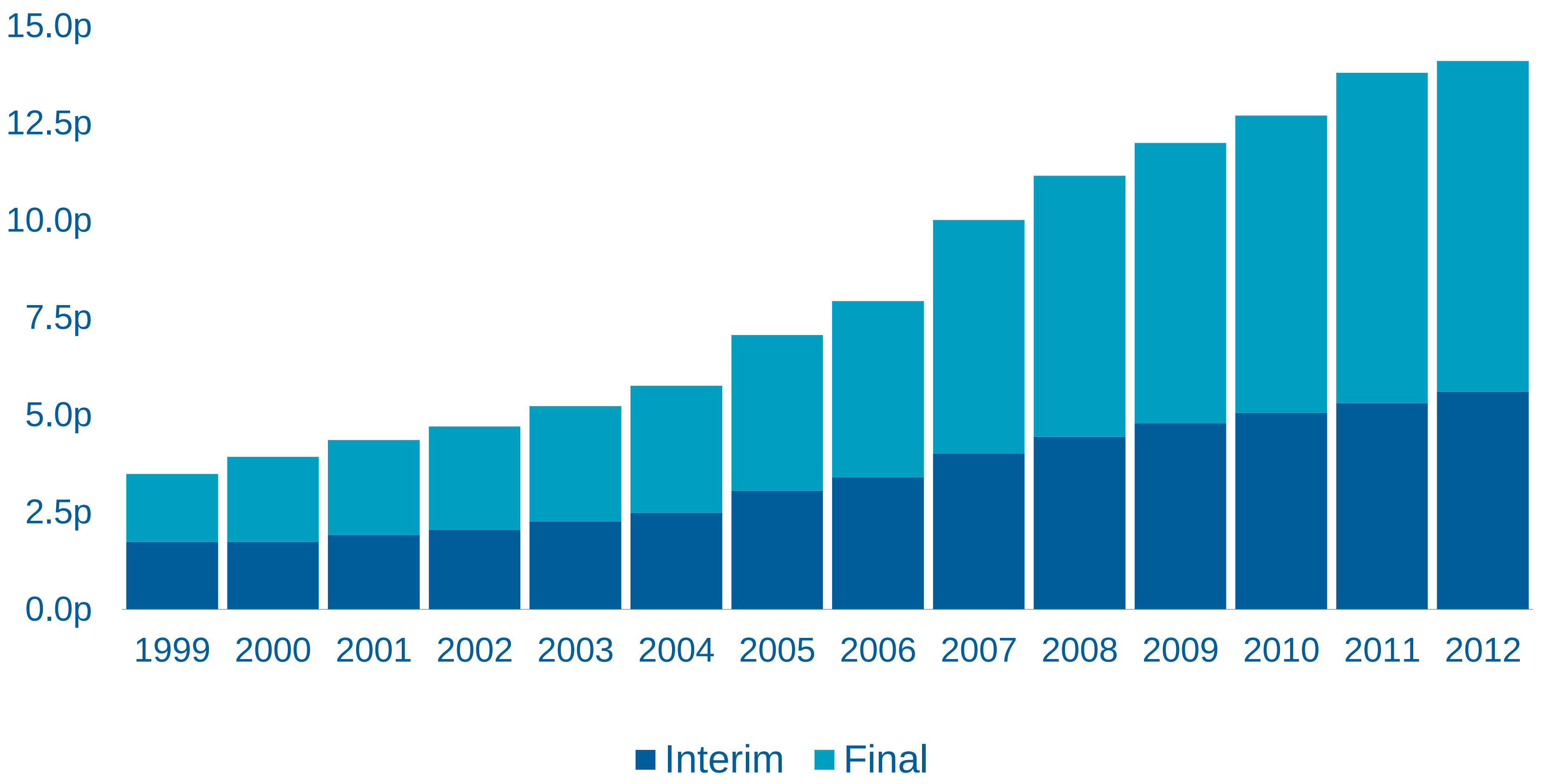
Dividends per share



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