

The Infrastructure Company

INVESTOR SEMINAR

30 NOVEMBER 2010

Balfour Beatty

This presentation was edited from its original on 17 December 2010 for certain US regulatory reasons.

The edited section is clearly marked in the document.

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements reflect the Balfour Beatty plc Directors' beliefs and expectations and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation: developments in the global economy; changes in UK and US government policies, spending and procurement methodologies; and the failure in Balfour Beatty's health, safety or environmental policies.

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Balfour Beatty

Ian Tyler

Chief Executive

Agenda

- Infrastructure markets
- Business model
- Infrastructure investments
- Break
- Financial implications
- Conclusion
- Q&A

Peter Zinkin

Andrew McNaughton

Anthony Rabin

Duncan Magrath

Ian Tyler

Defining core skills

Infrastructure

Transport - Power - Water - Complex buildings

Technical expertise

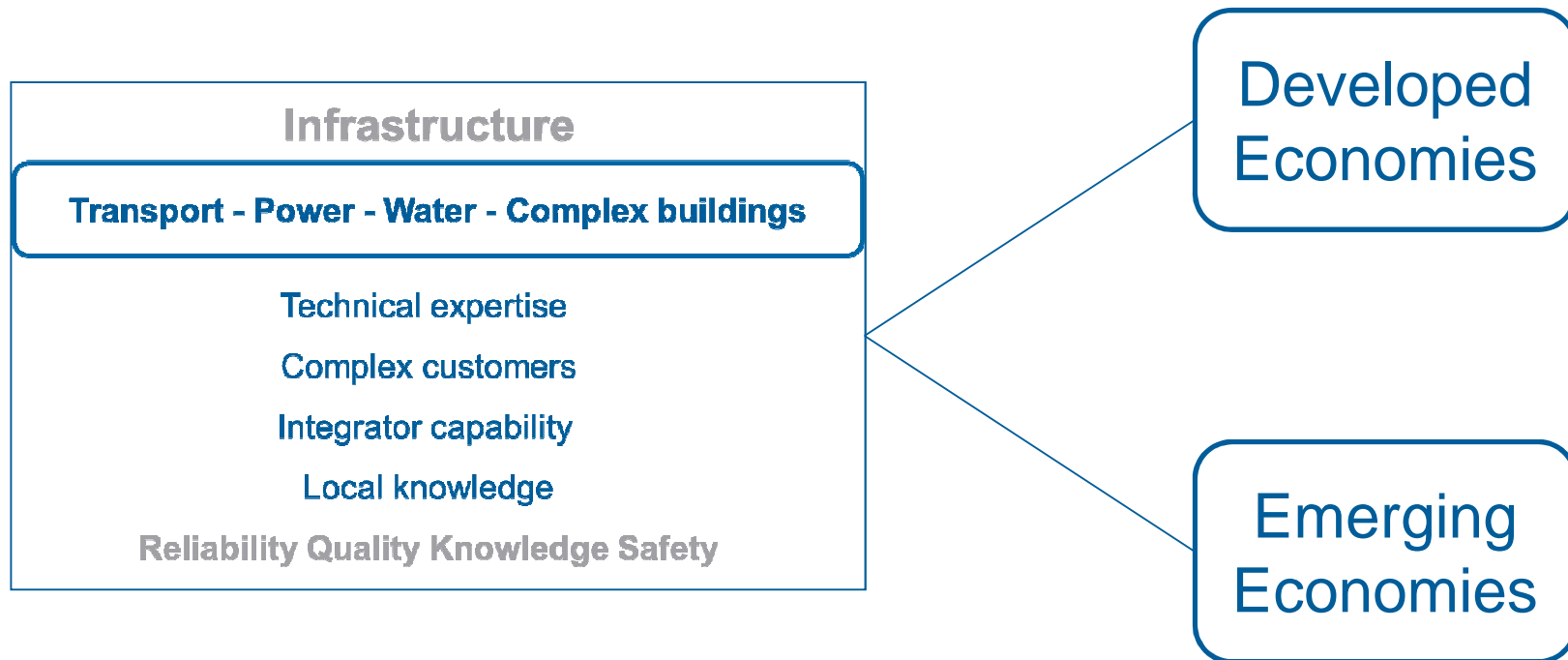
Complex customers

Integrator capability

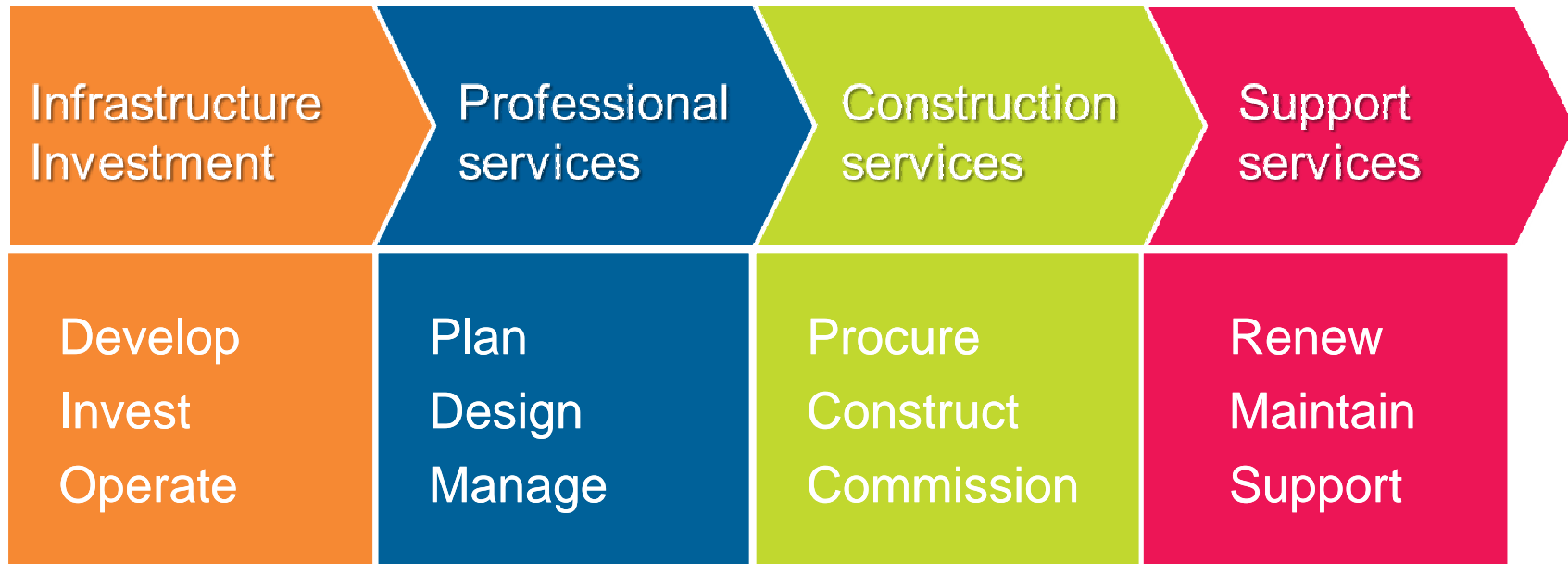
Local knowledge

Reliability Quality Knowledge Safety

Defining core skills



Addressing the infrastructure market



Generating a whole greater than the parts



Value creation

- Proven track record of growth
- Leveraging knowledge across the Group
- Providing integrated capability to customers

Balfour Beatty

Balfour Beatty

Peter Zinkin

Planning and Development Director

Outline of presentation

- What is infrastructure and which markets are we going to discuss
- The global infrastructure market outlook
- Infrastructure and GDP – the virtuous circle
- Infrastructure demand is relatively stable
- Infrastructure trends in developed and emerging economies
- UK short term outlook after the CSR
- What all this means for Balfour Beatty – three propositions

What is infrastructure and which markets are we going to discuss today?

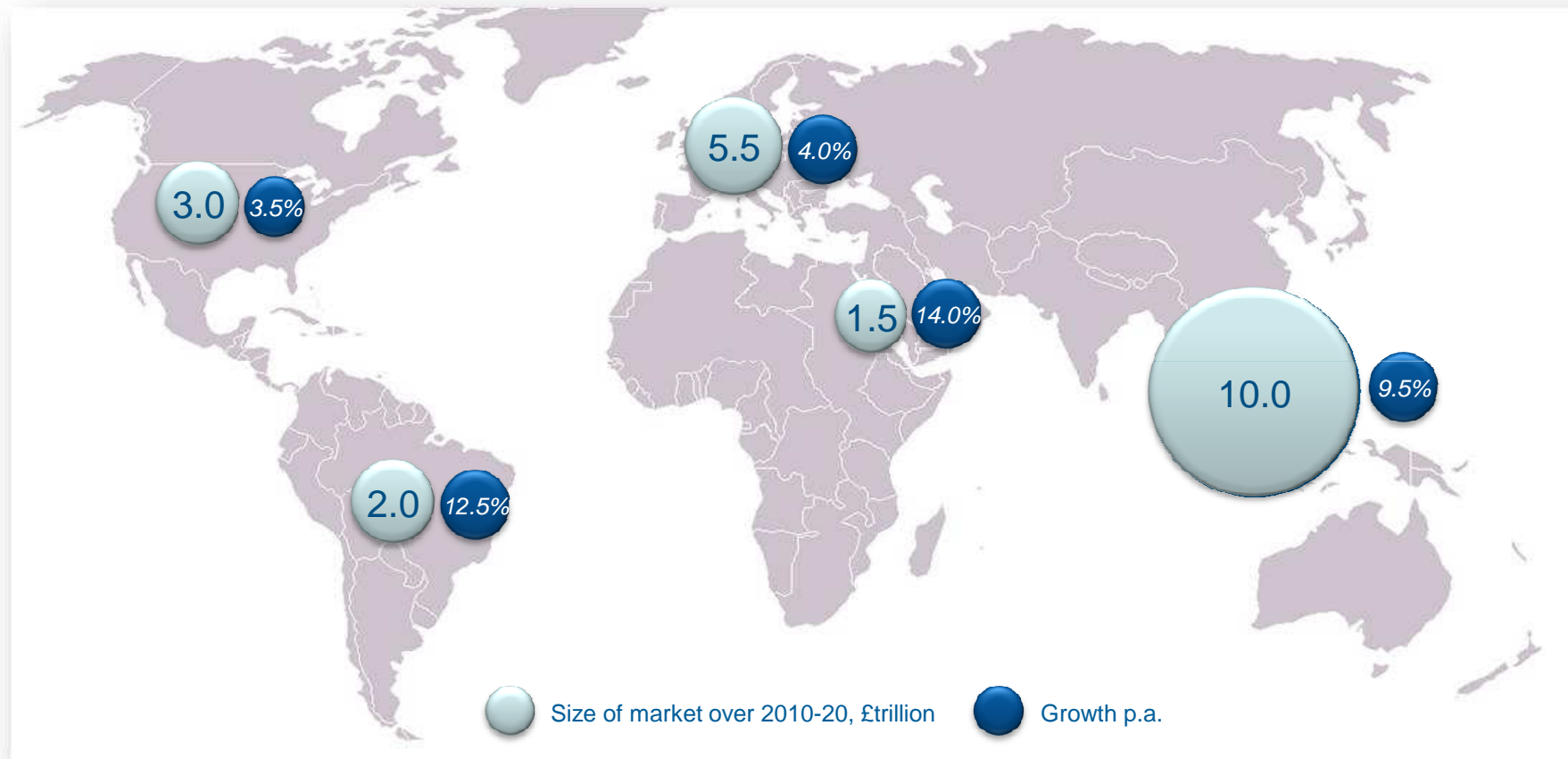
- Civil infrastructure
 - Transportation
 - Road, rail, aviation, ports
 - Power
 - Water
 - Communications
- Social infrastructure
 - Health
 - Education
 - Social housing
 - Military housing

- Developed economies
 - United Kingdom
 - United States of America
 - Canada
- Emerging economies
 - India
 - China

Balfour Beatty – proposition 1

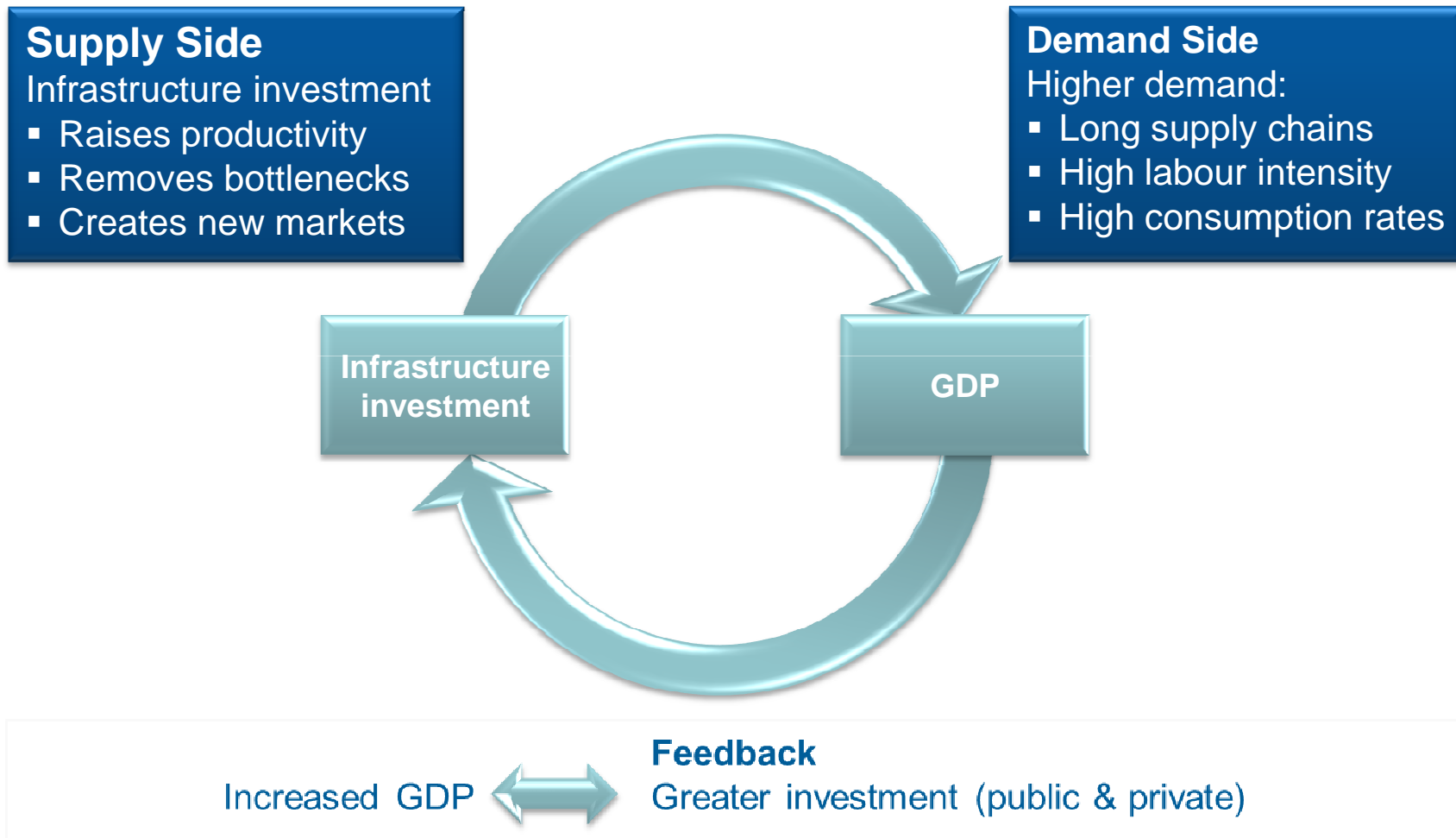
- Infrastructure will remain a strong and stable global market which we are confident will grow

The global infrastructure market is expected to be £20+ trillion over 2010-20



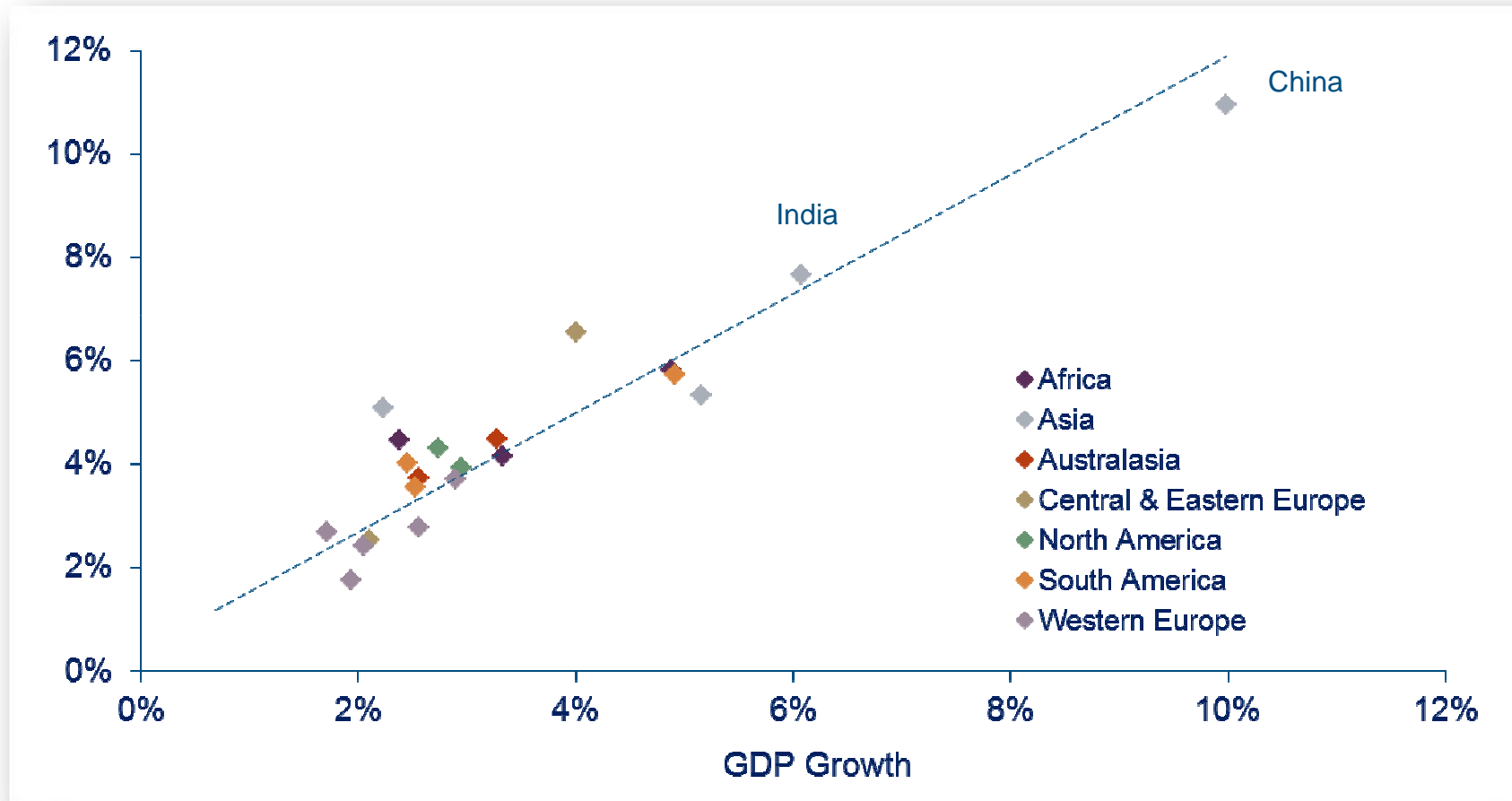
Source: Global insight

Infrastructure and GDP - the virtuous circle



Infrastructure and GDP are highly correlated

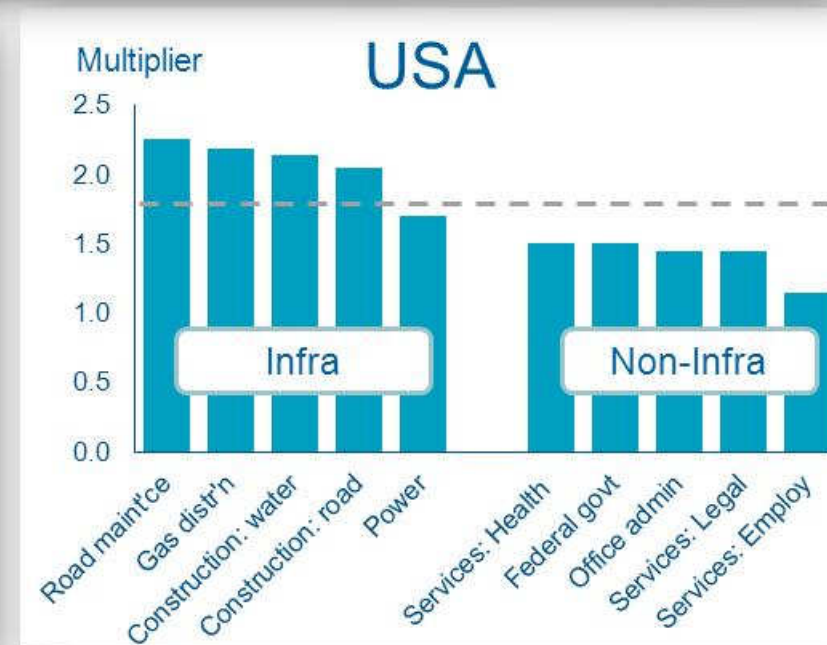
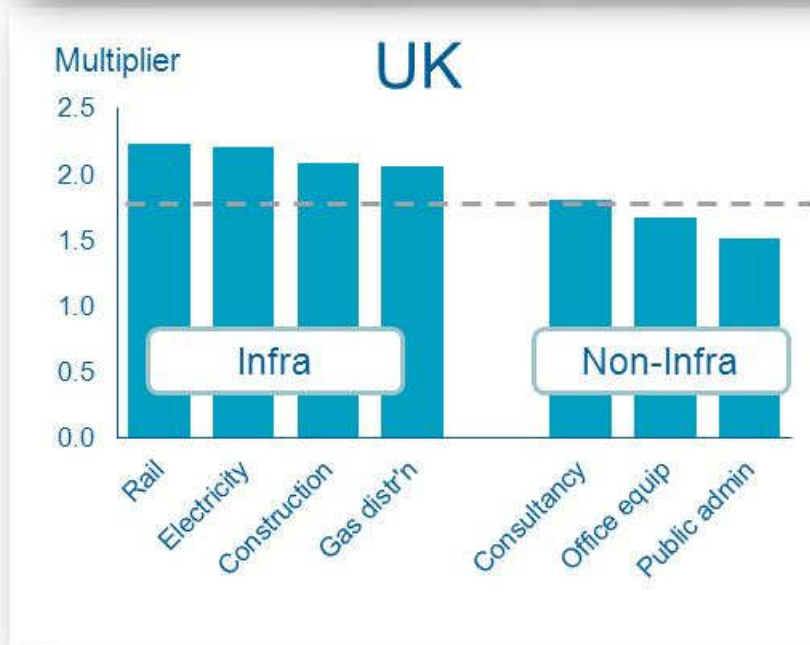
Investment Growth



Source: World Bank. Figures are for 1960-2008 and based on US \$ at PPP. Investment is Gross Fixed Capital Formation.

Demand side: infrastructure investment has a higher economic multiplier effect than non-infrastructure expenditure and so has greater economic leverage

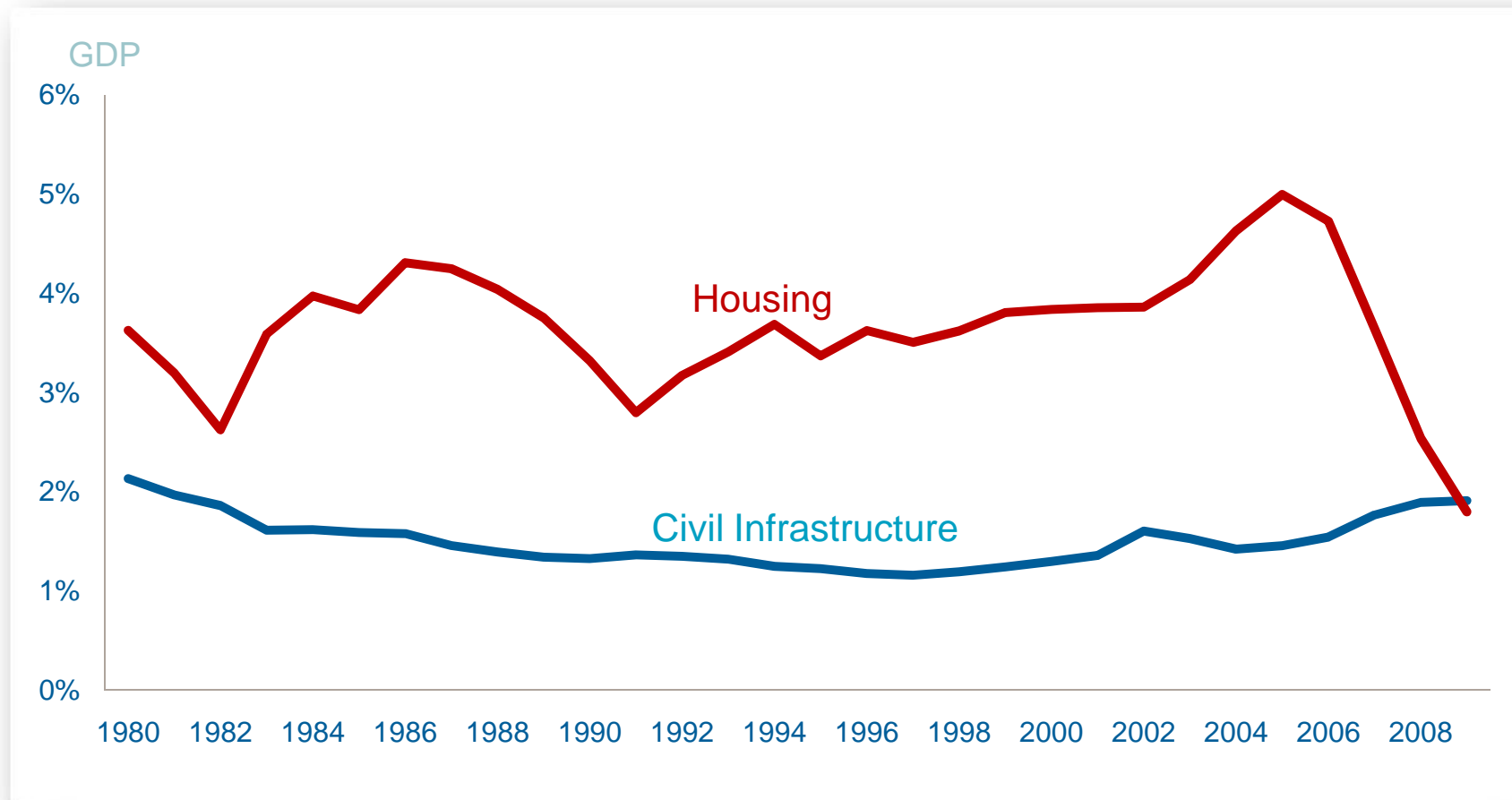
Economic growth – Infrastructure v non-infrastructure sectors



Source: UK data – ONS; USA data – US Bureau of Economic Analysis

Infrastructure demand is very stable over prolonged periods of time... in the USA

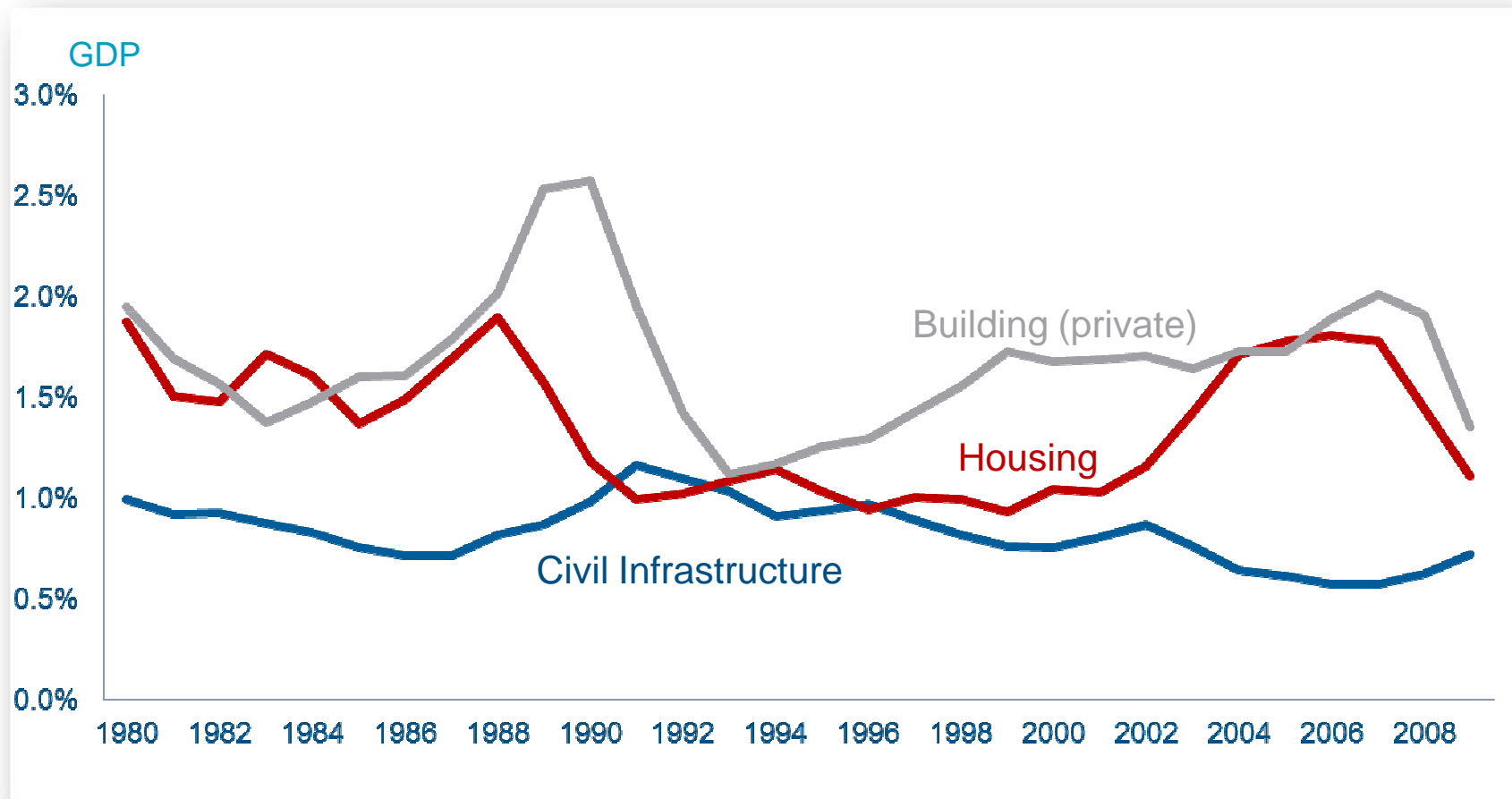
USA Construction Market 1980 - 2009



Source: US Census Bureau

Infrastructure demand is very stable over prolonged periods of time... also in the UK

UK Construction Output 1980 - 2009



Source: ONS

Balfour Beatty – proposition 2

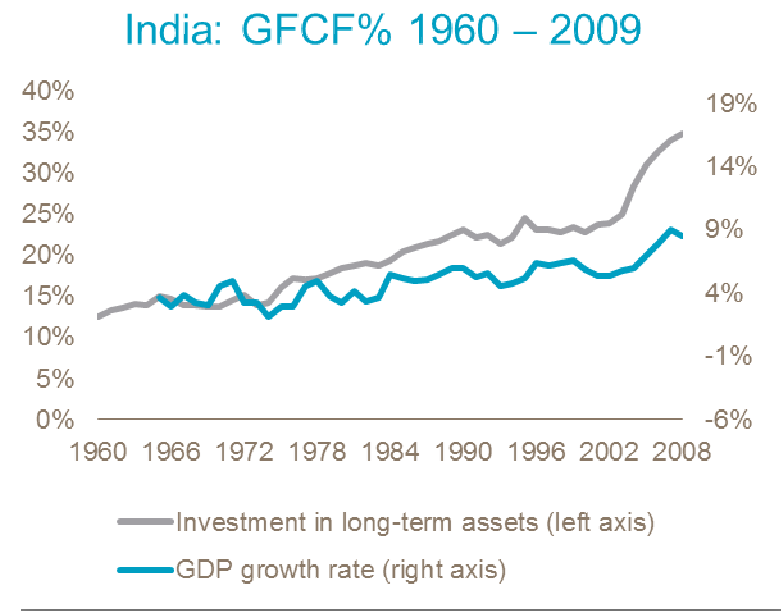
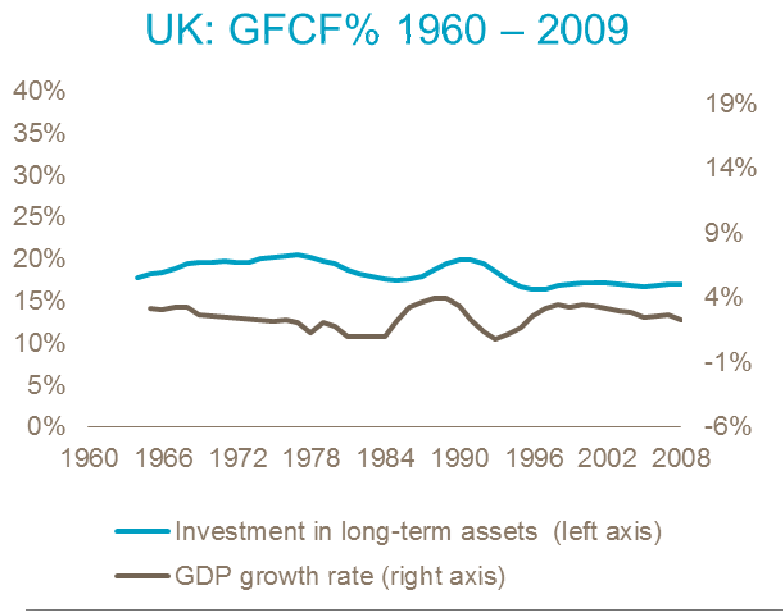
- Infrastructure will remain a strong and stable global market which we are confident will grow
- Emerging economies will become increasingly important to us as Infrastructure growth in emerging economies will be even higher than the GDP growth

What drives infra investment in developed and emerging economies

Economic growth - International trade - Demographics

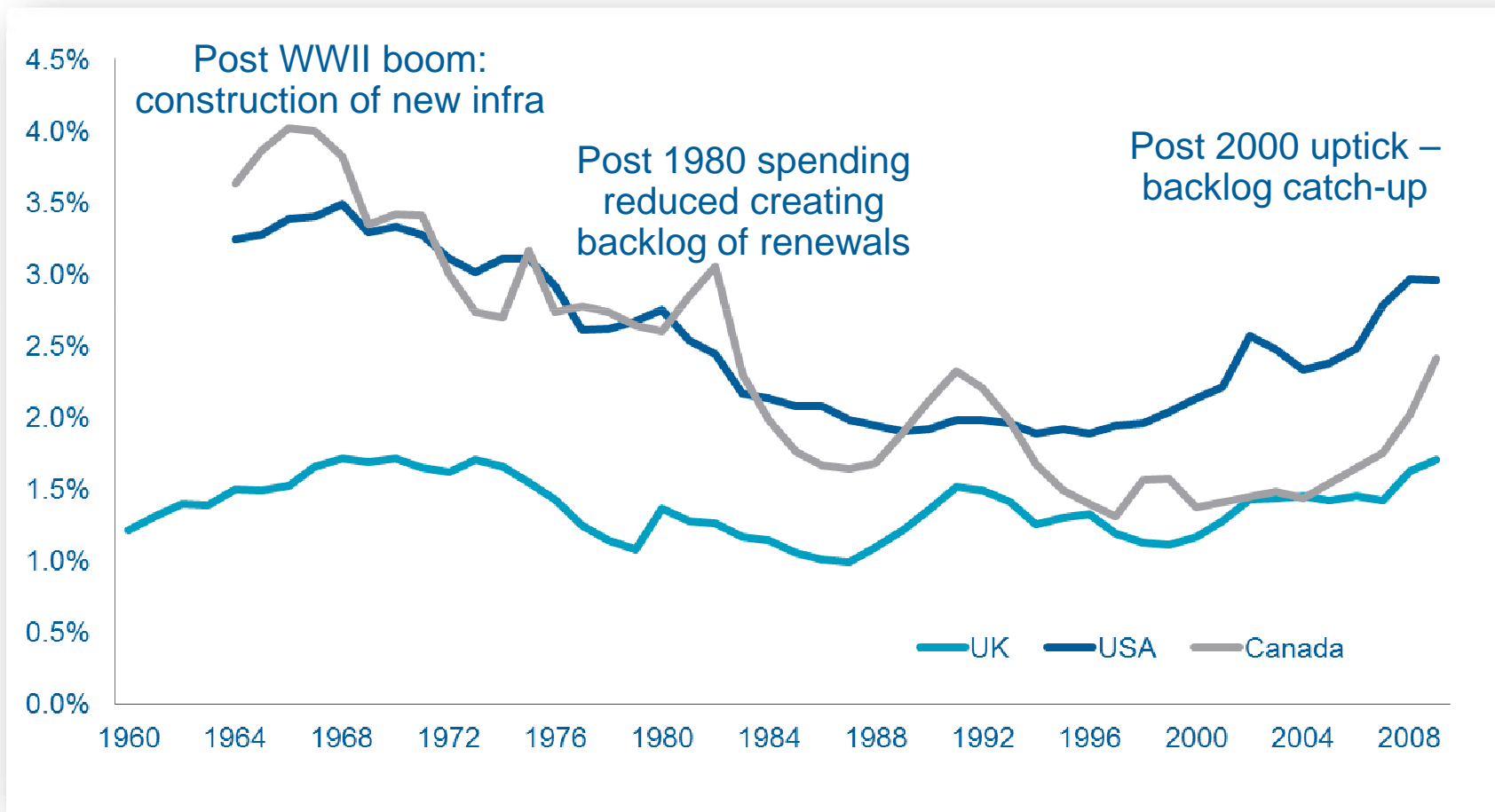
- Sustainability
- Infrastructure renewal

- Urbanisation
- Increasing GDP/head



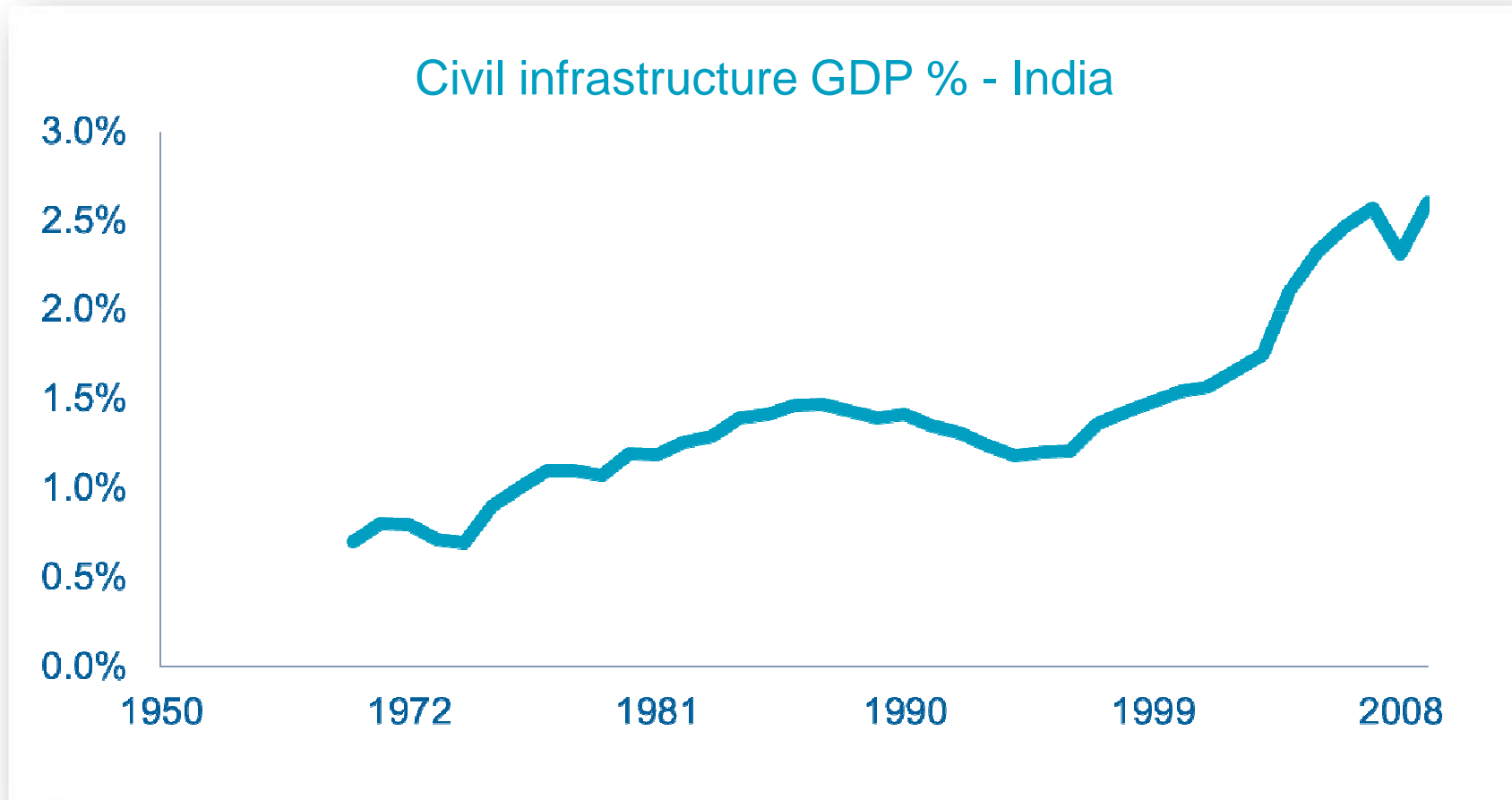
Source: World Bank. Smoothed moving average.
Investment is Gross Fixed Capital Formation.

In developed economies start of renewal of 40+ year old infrastructure can be seen after 2000



Source: UK-ONS; USA-US Census Bureau; Canada-Statistics Canada

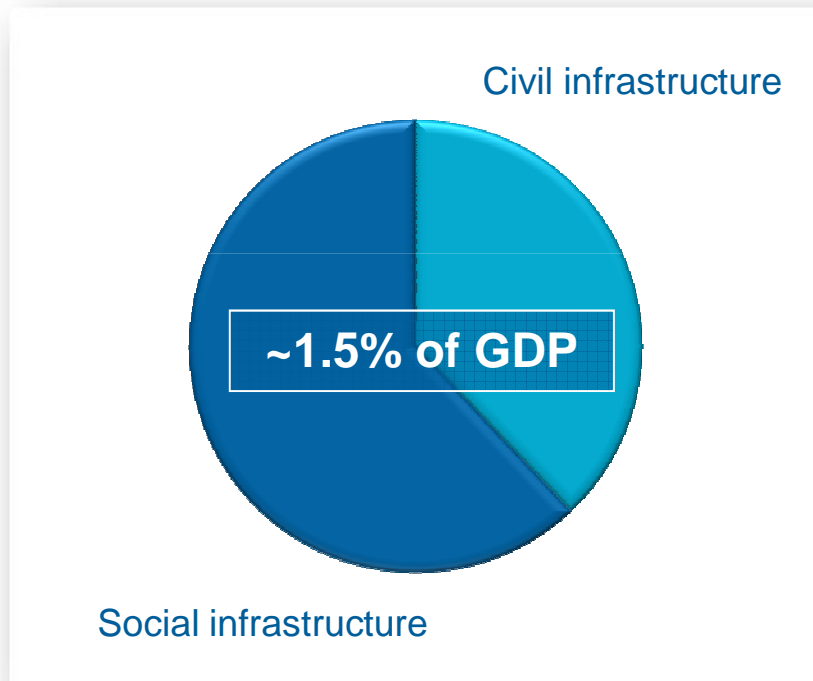
In emerging economies investment in civil infrastructure is accelerating



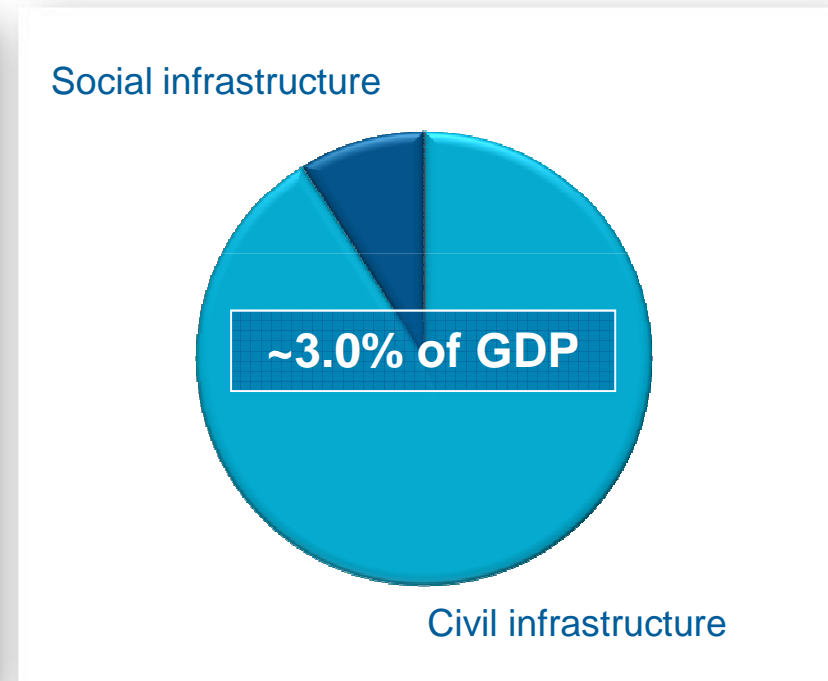
Source: Balfour Beatty analysis

Pattern of social and civil infra is different ^{Balfour Beatty} between developed and emerging economies

Developed Economy (UK)



Emerging Economy (India)

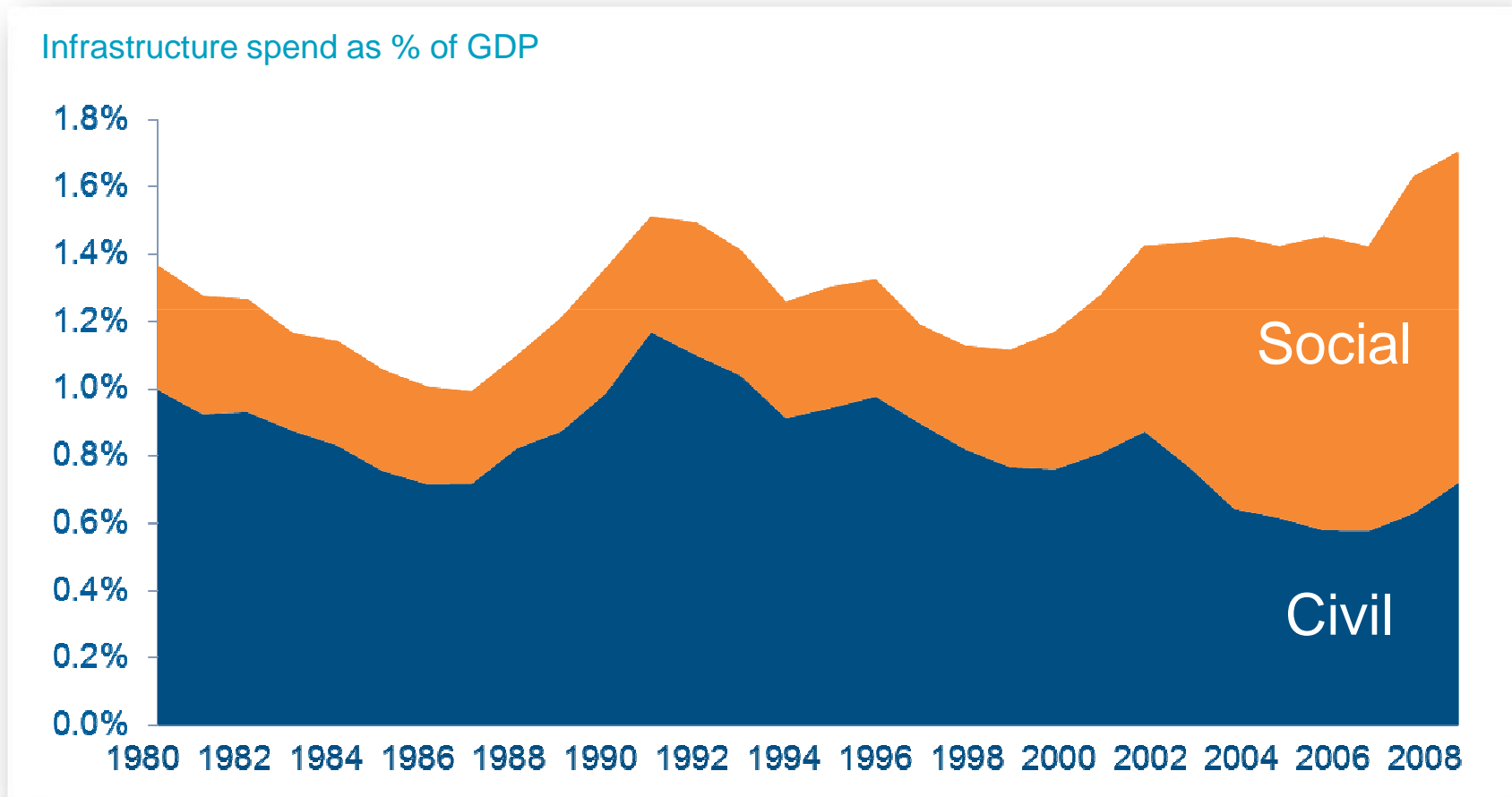


Source UK-ONS; India - Balfour Beatty research

Balfour Beatty – proposition 3

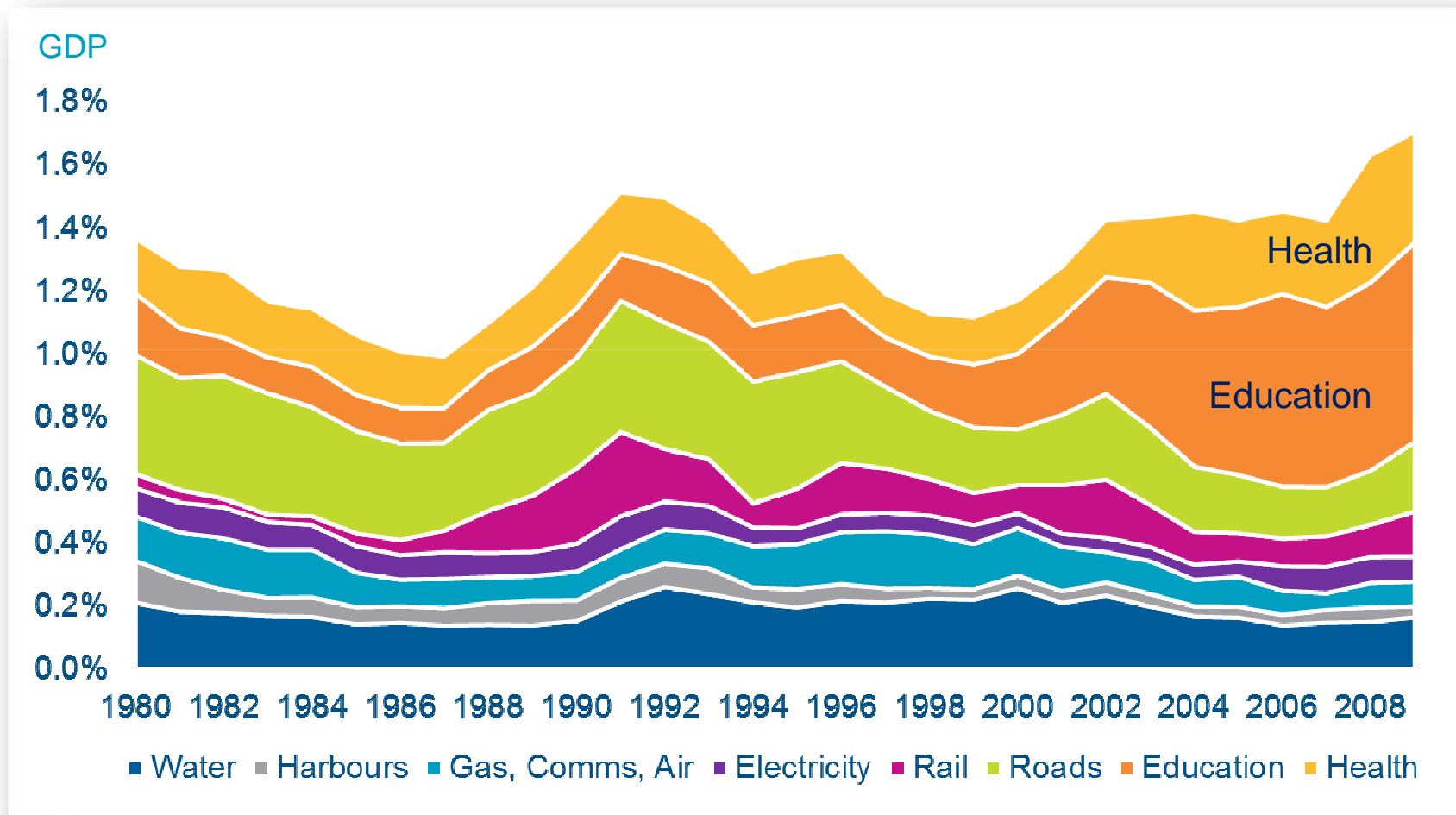
- Infrastructure will remain a strong and stable global market which we are confident will grow
- Emerging economies will become increasingly important to us as infrastructure growth in emerging economies will be even higher than the GDP growth
- The impact of the CSR on overall infrastructure investment in the UK will be relatively modest with a slowdown in social infrastructure and growth in civil infrastructure

UK infrastructure outlook in the short term is mixed, with social expected to fall and civil to rise



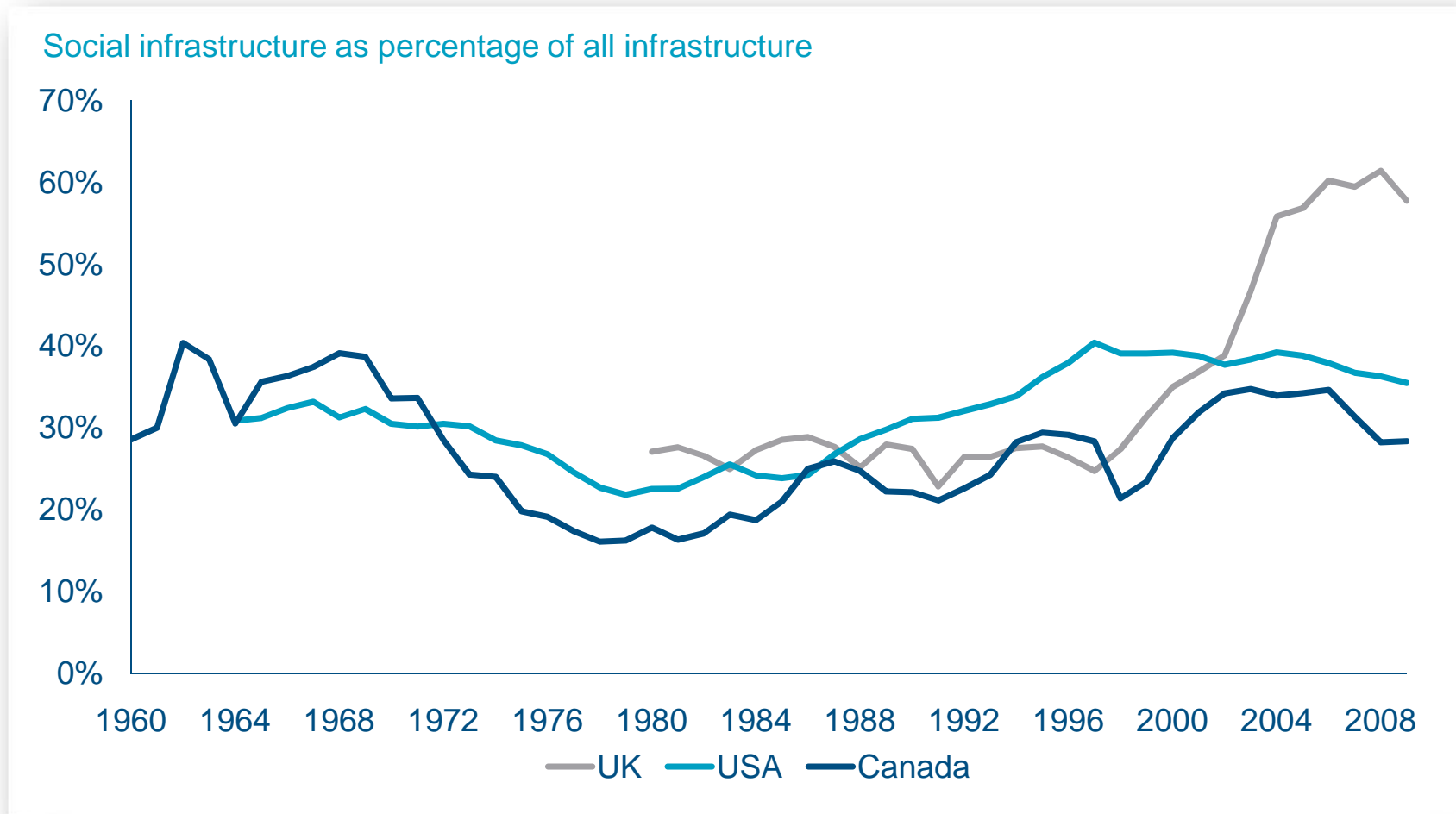
Source: ONS

UK infrastructure trends (GDP%)



Source: ONS

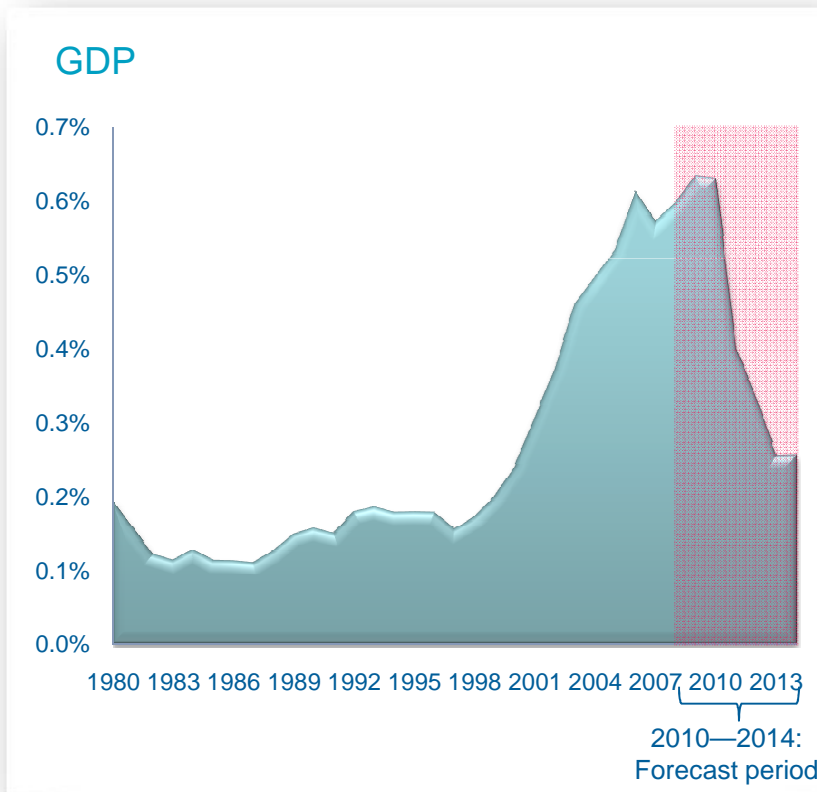
Social infrastructure investment in the UK had risen to unsustainable levels after 1997



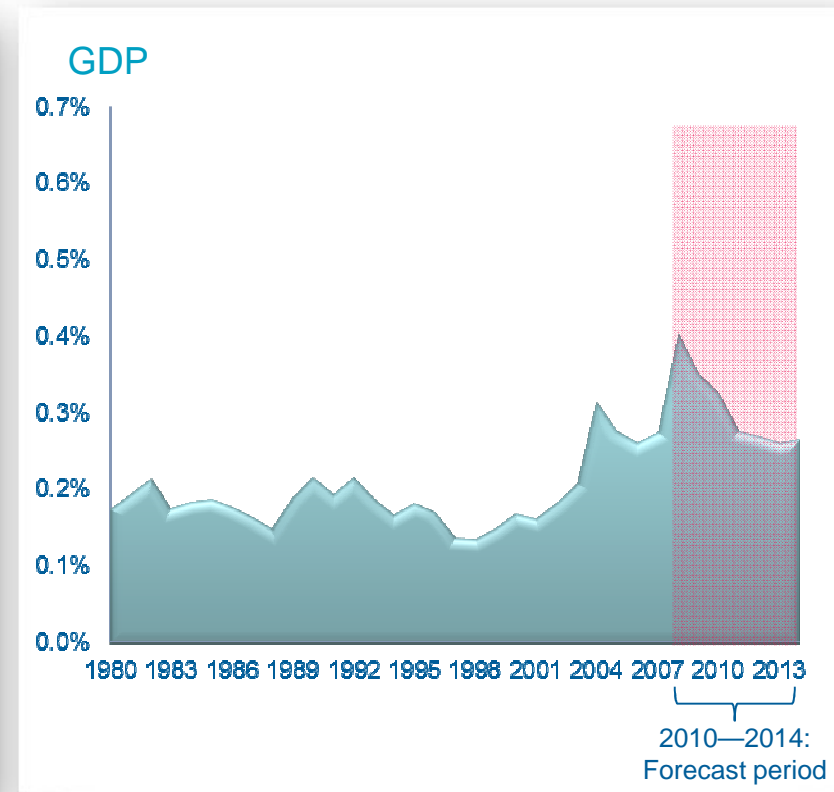
Source: UK-ONS; USA-US Census Bureau; Canada-Statistics Canada

Although social infrastructure spending will fall it is still expected to remain at substantially above historical levels

Education



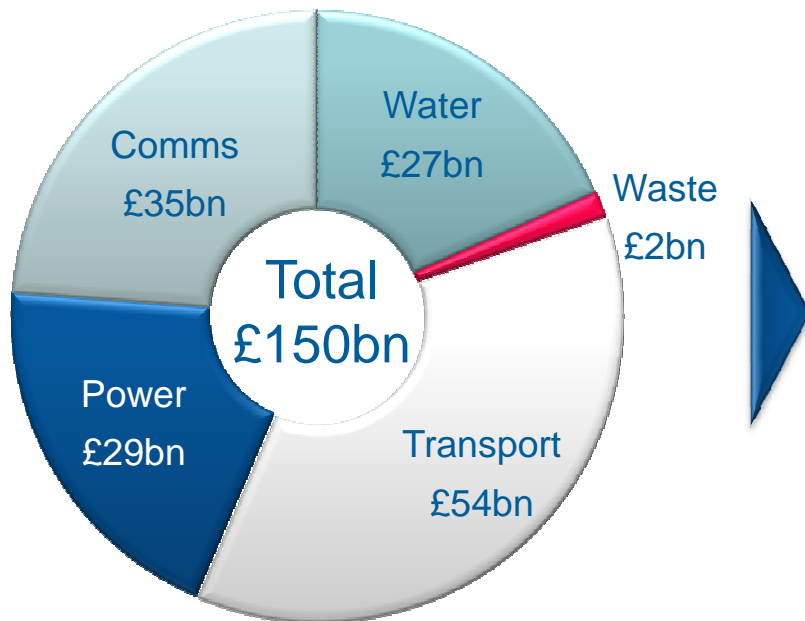
Health



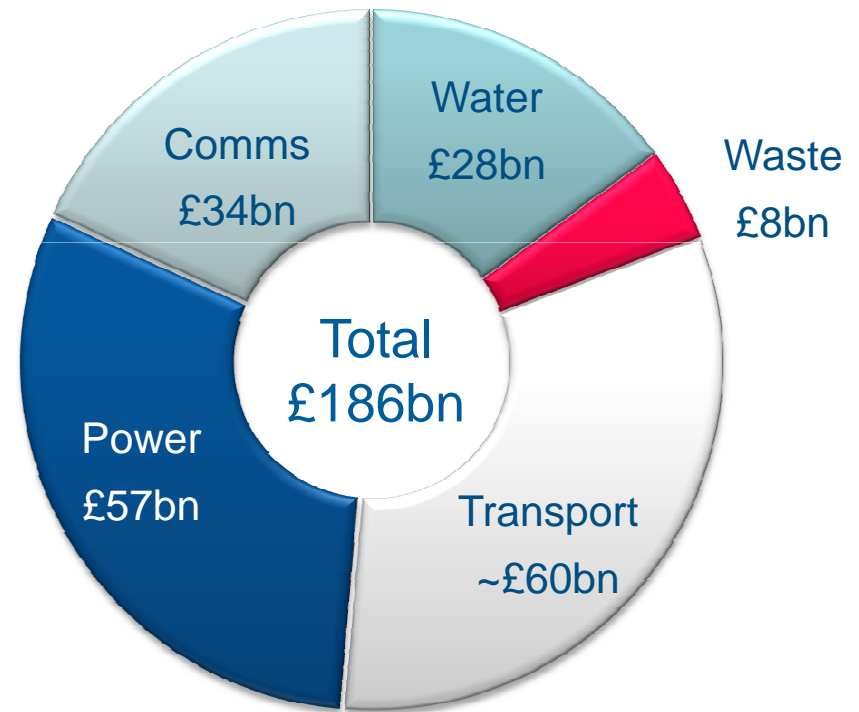
Source: ONS and CSR

UK civil infrastructure is expected to be a strong market, particularly in power sector

2005/06 – 2009/10



2010/11 – 2014/15



Source: HM Treasury, 2010
Adjusted for CSR. Figures are in real terms

Balfour Beatty – propositions

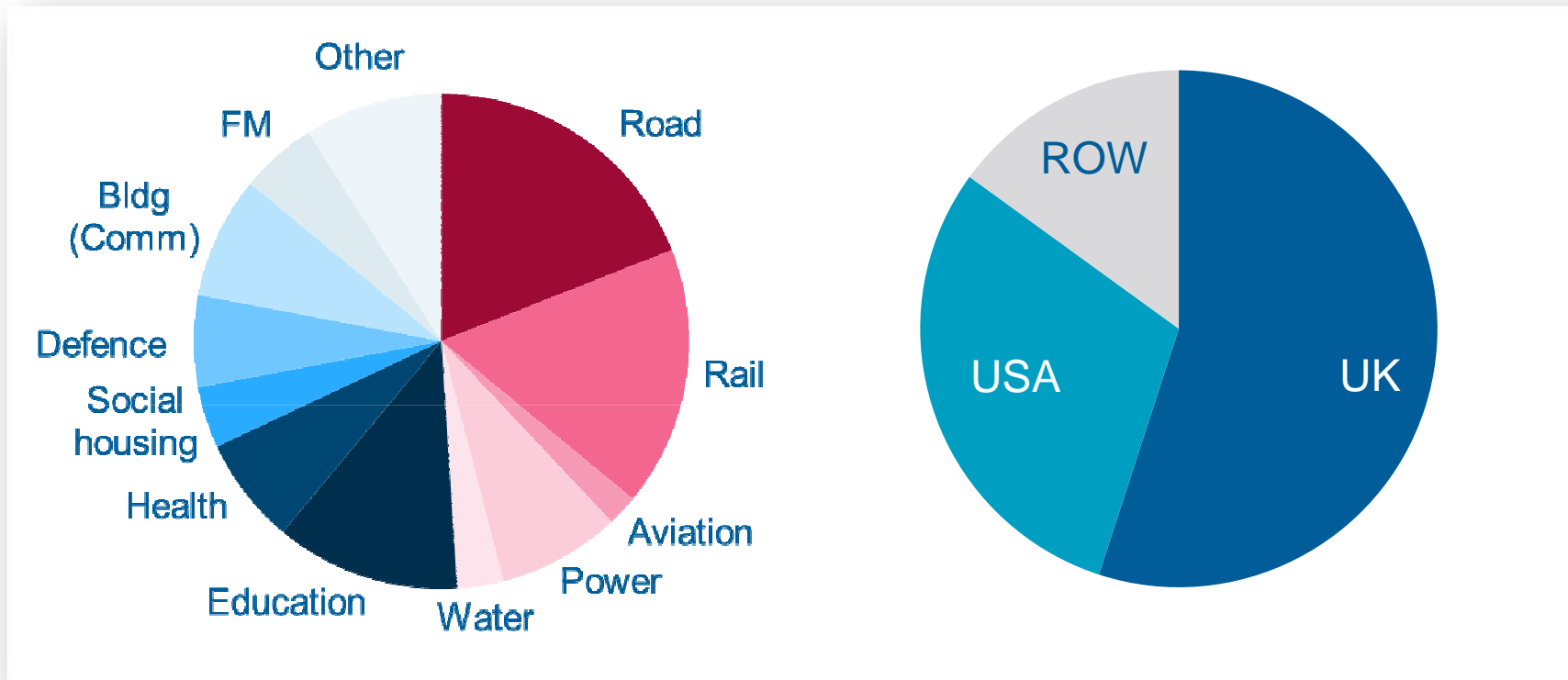
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Balfour Beatty

Andrew McNaughton

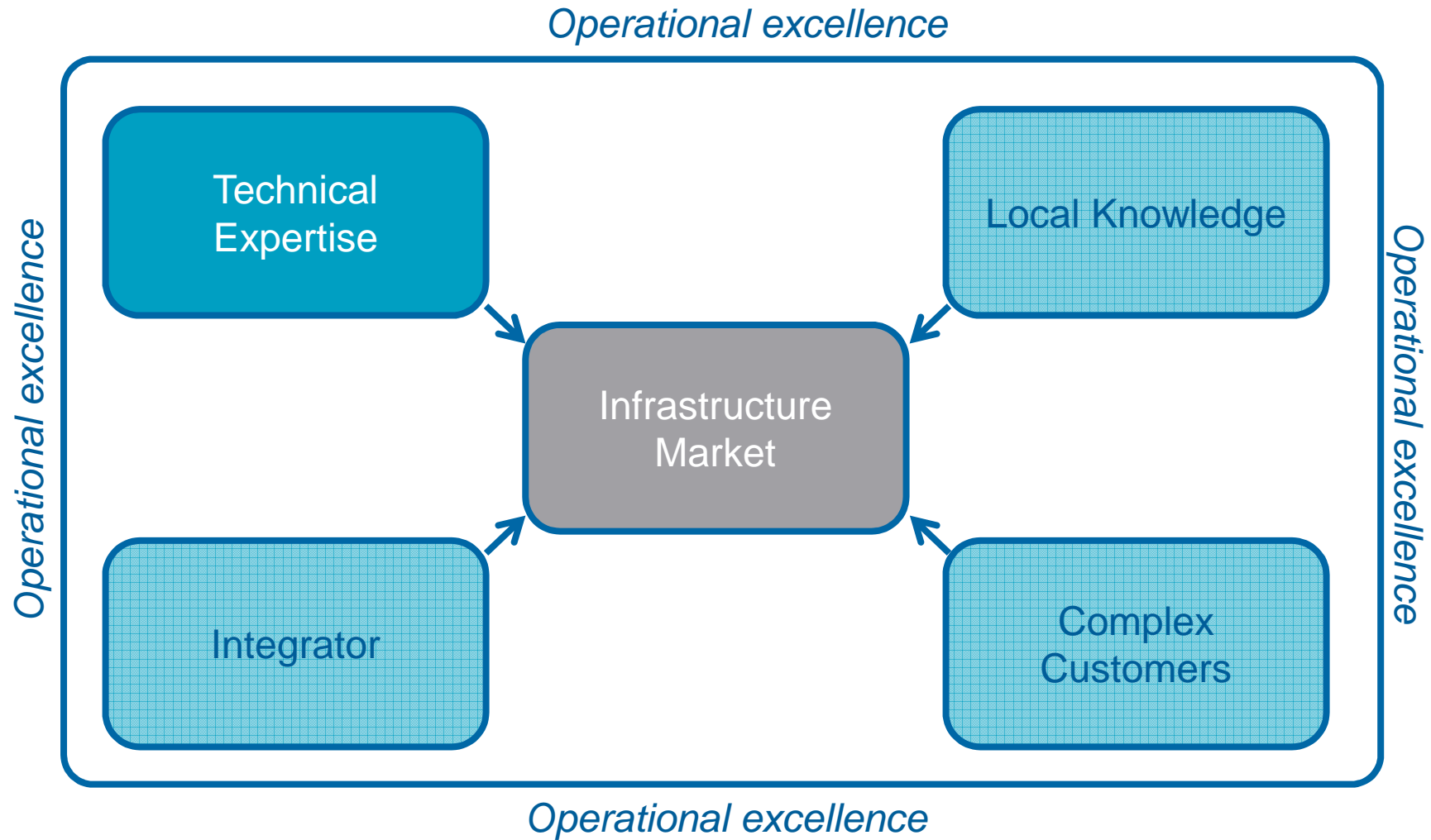
Chief Operating Officer

Balfour Beatty is an infrastructure company

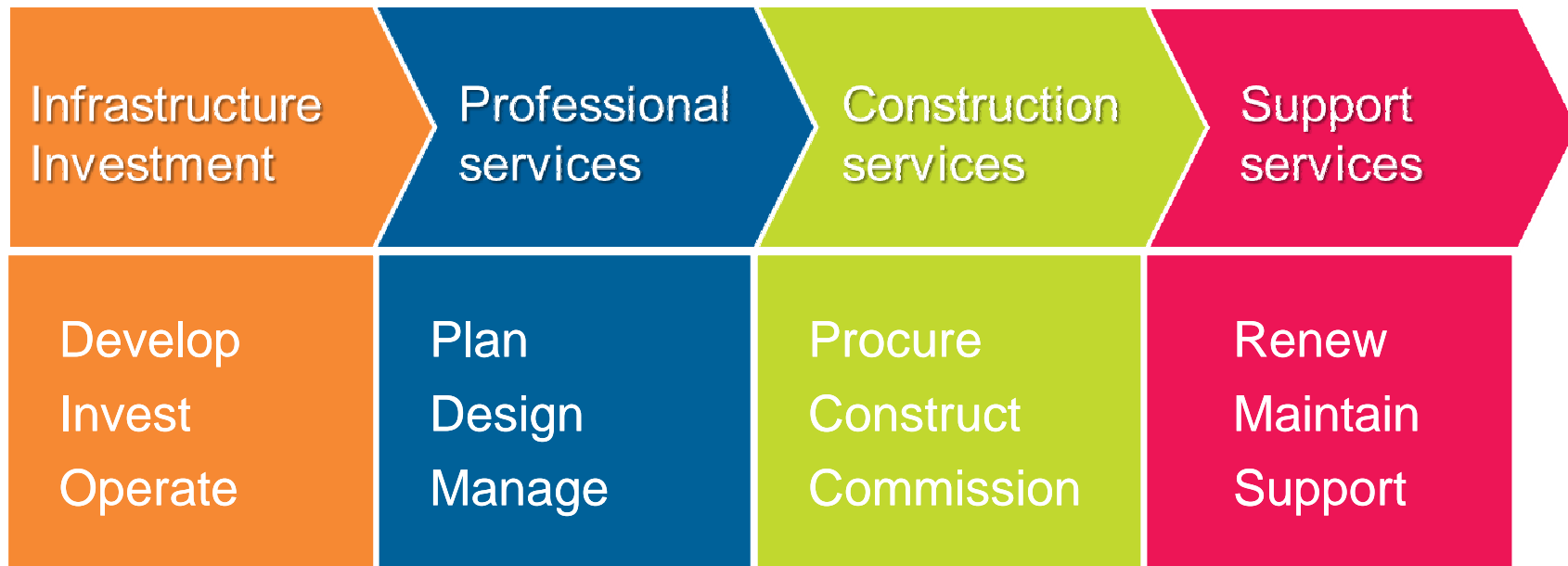


- Focused on civil and social infrastructure
- Diverse market sectors and geographies

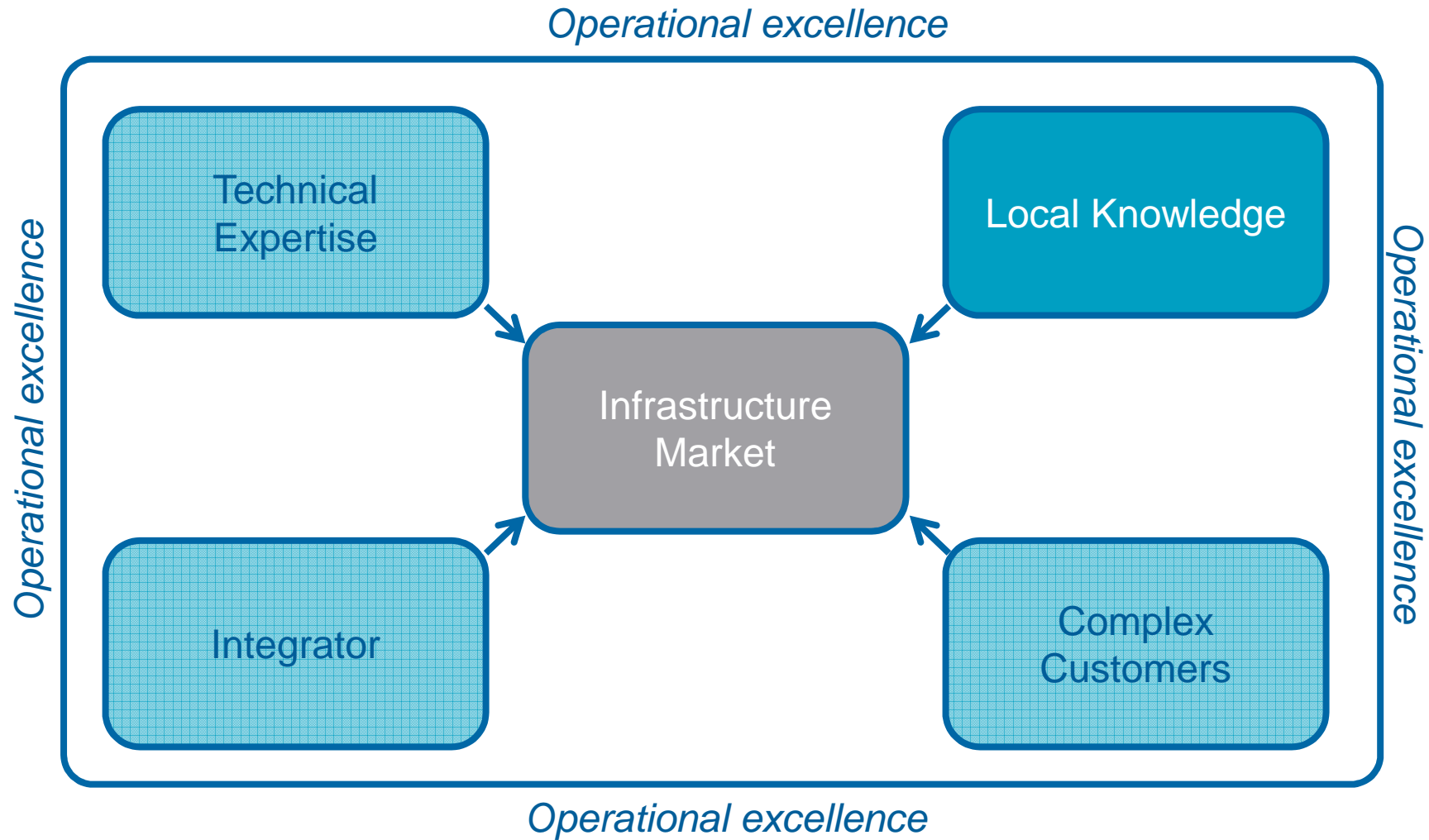
Four elements are at the heart of the Balfour Beatty offering



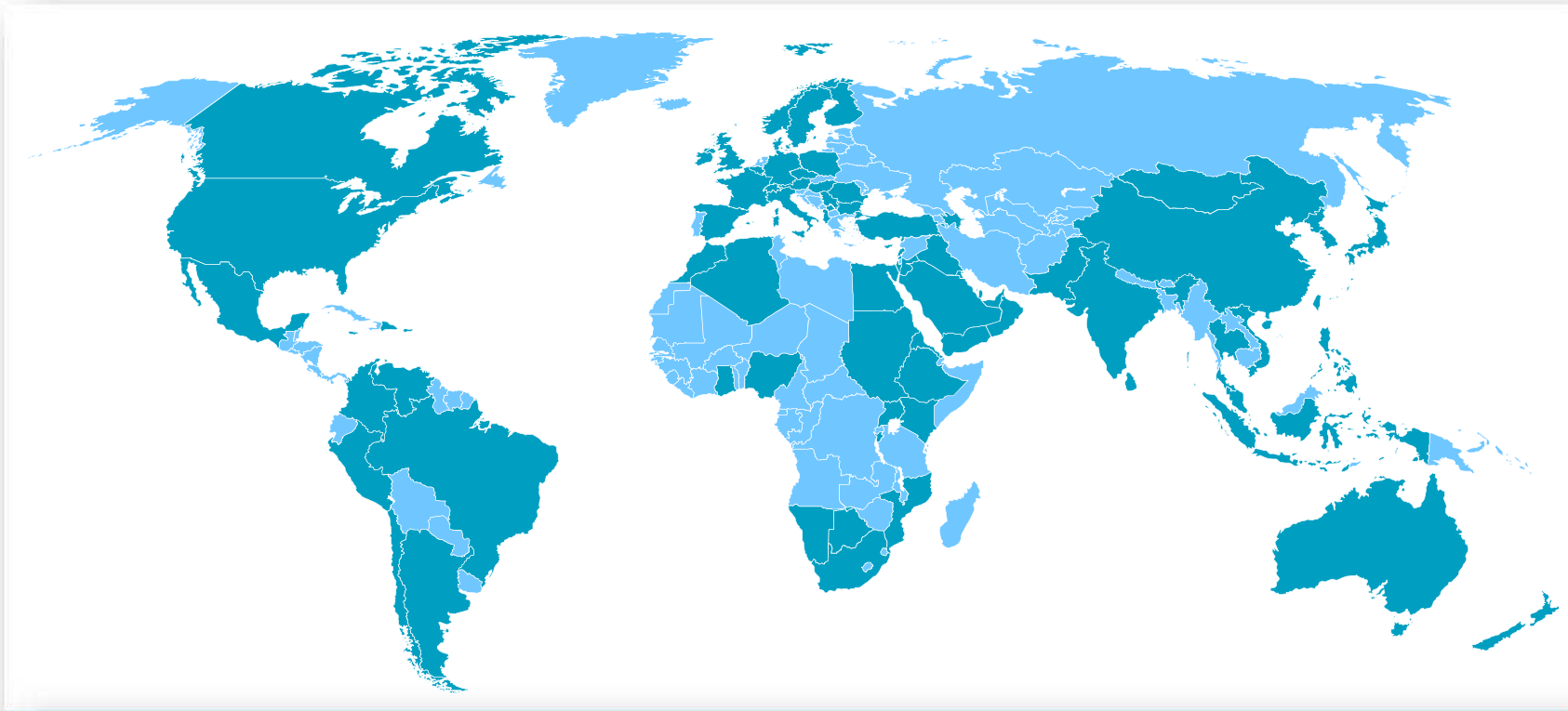
Balfour Beatty capabilities address all aspects of the infrastructure market.....



Four elements are at the heart of the Balfour Beatty offering

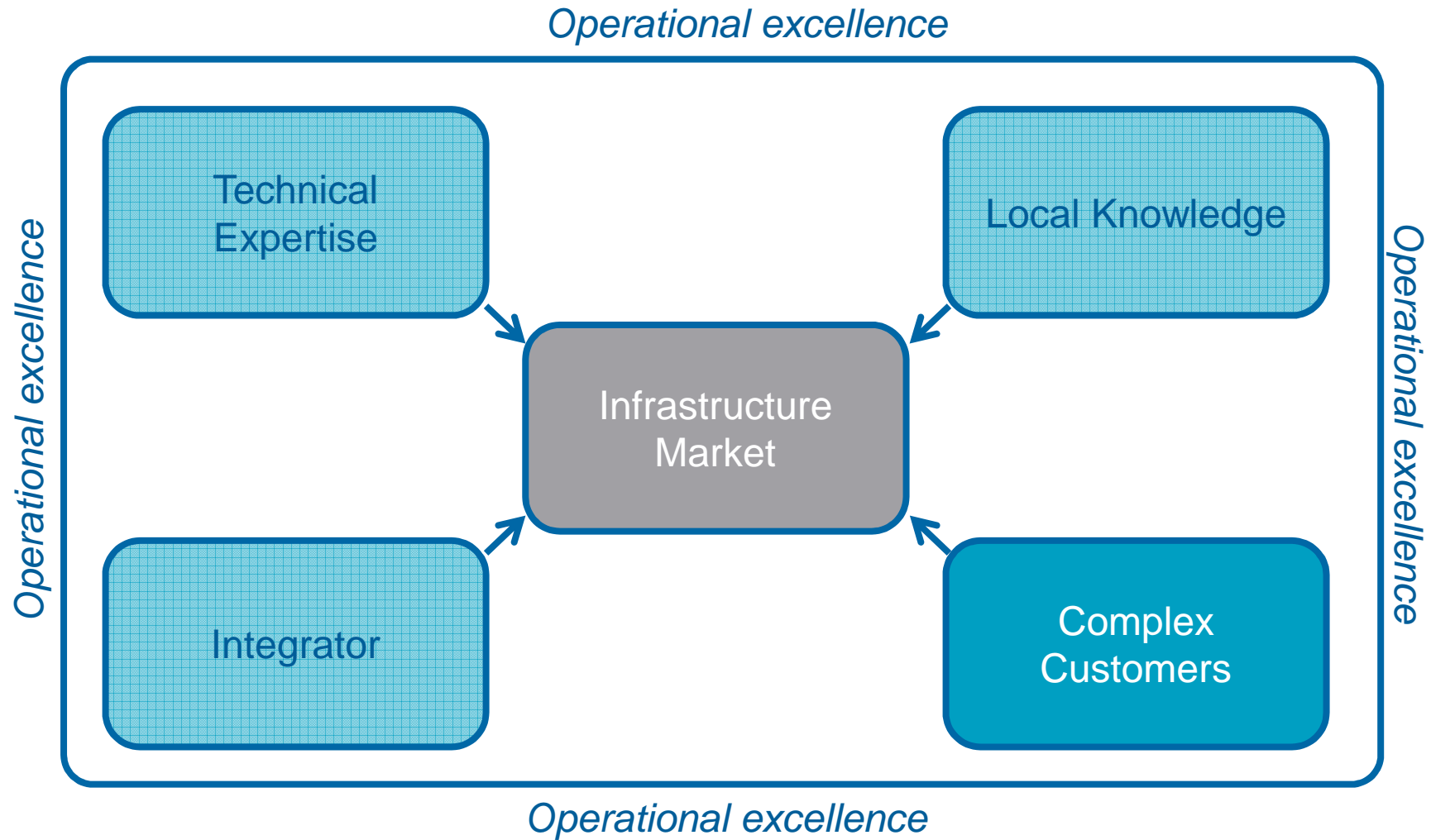


This differentiation is enhanced by our local presence across the world

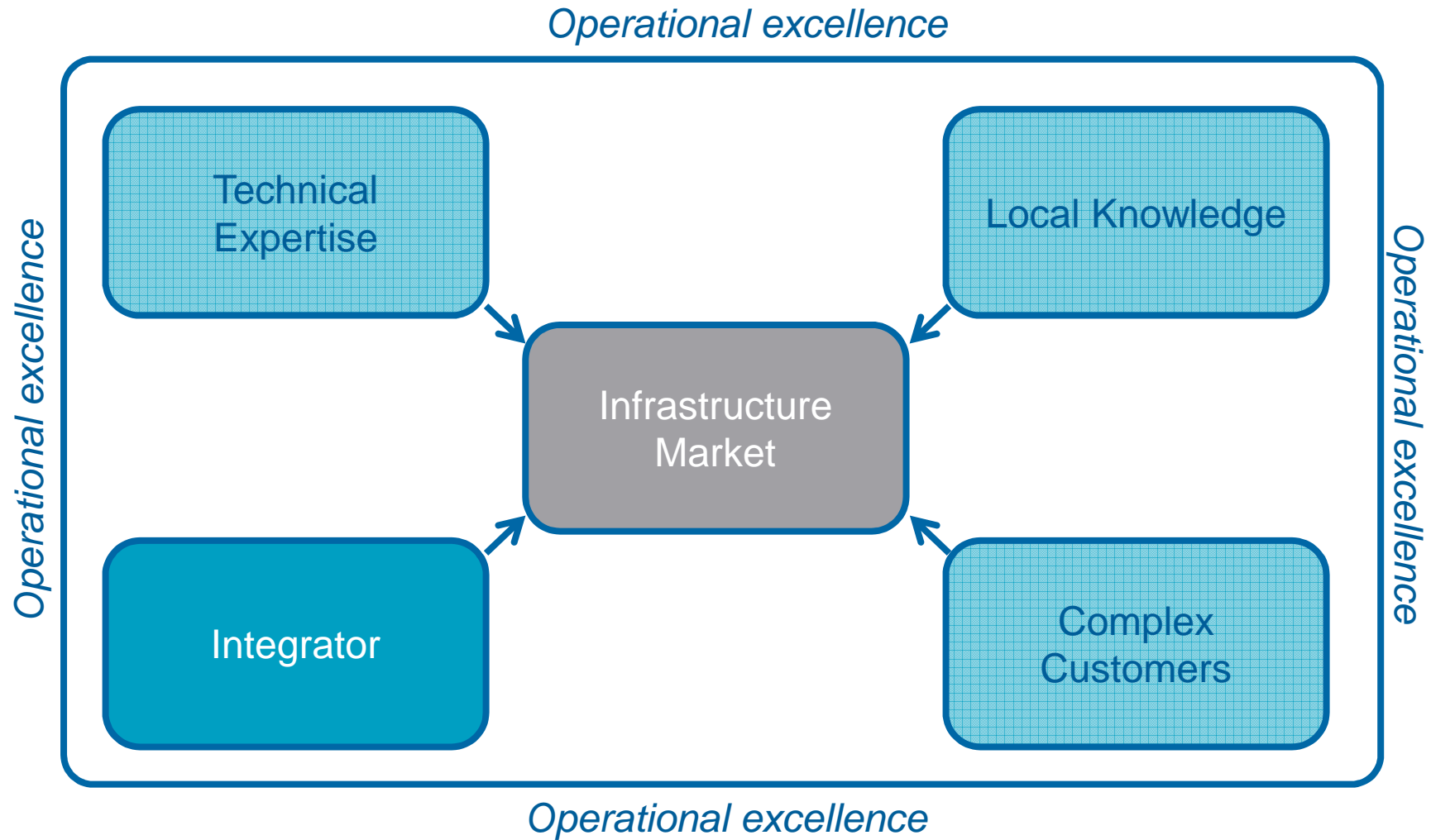


Presence in over 80 countries
Long standing local relationships

Four elements are at the heart of the Balfour Beatty offering



Four elements are at the heart of the Balfour Beatty offering



The combination differentiates Balfour Beatty - especially on large complex projects



Denver RTD

- Client: Denver Regional Transport
- \$7b - 29 year DBM contract
- Rail USA: project lead and track
- PB: system design/safety/integration
- Rail Germany: traction power and overhead catenary components

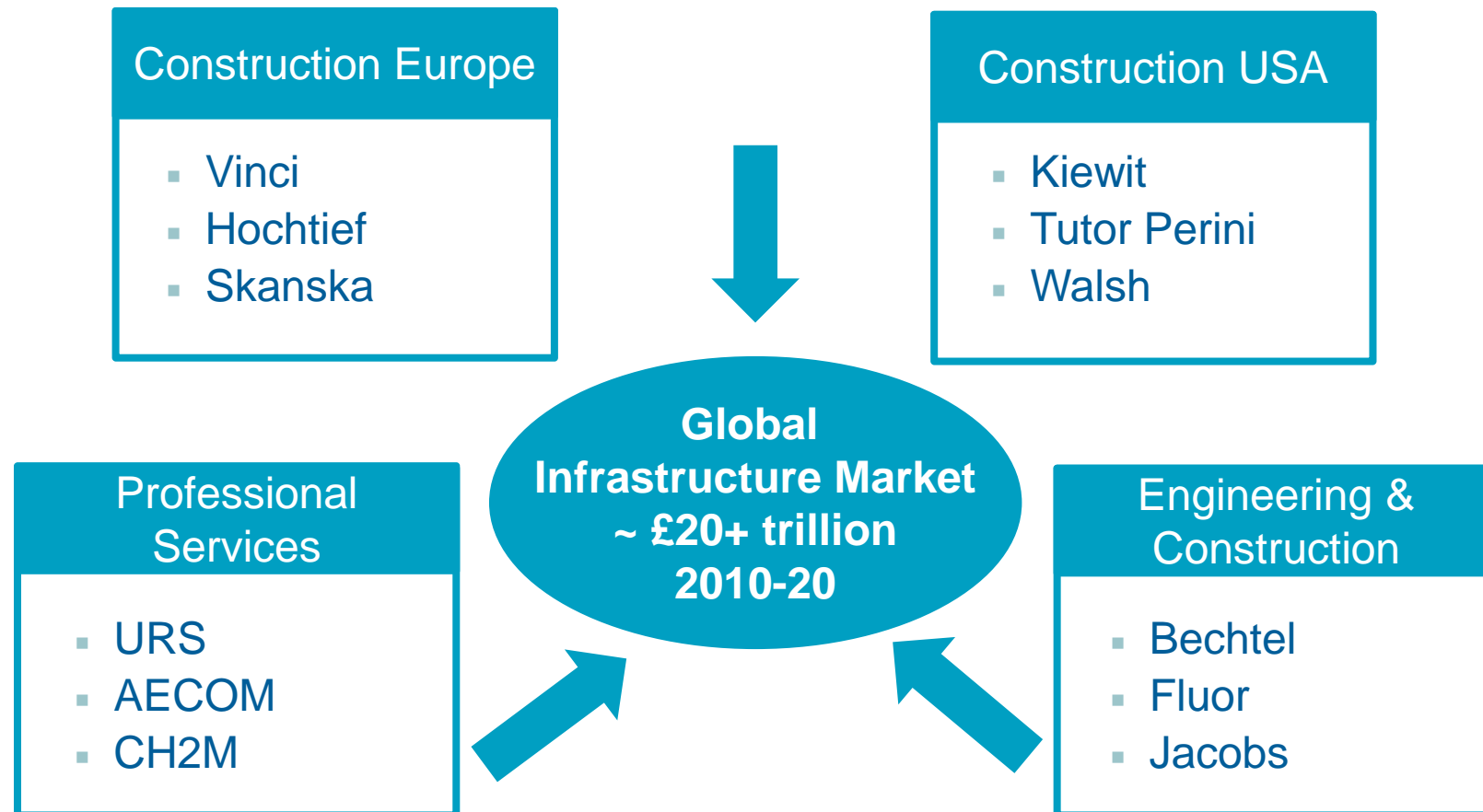


M25 DBFO

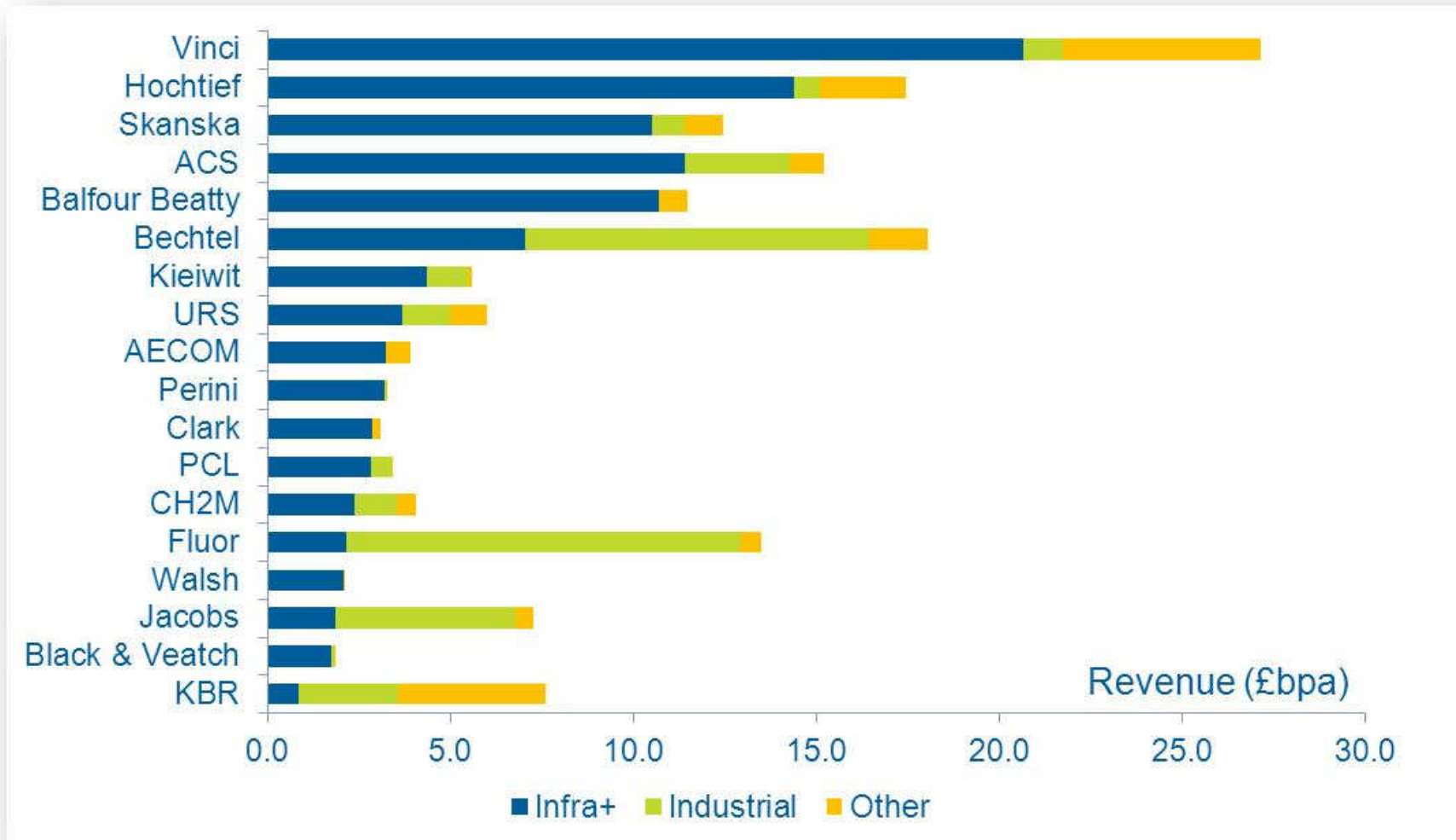
- Client: Highways Agency
- £6.2b - 30 year DBFO contract
- BB Capital: financing (via Connect Plus)
- BBMCE/BBES: construction (widening)
- BBUS & BBRCE: ops & maintenance
- PB: integration and management

BB Strategic Positioning

Players are approaching the global infrastructure market from different starting points



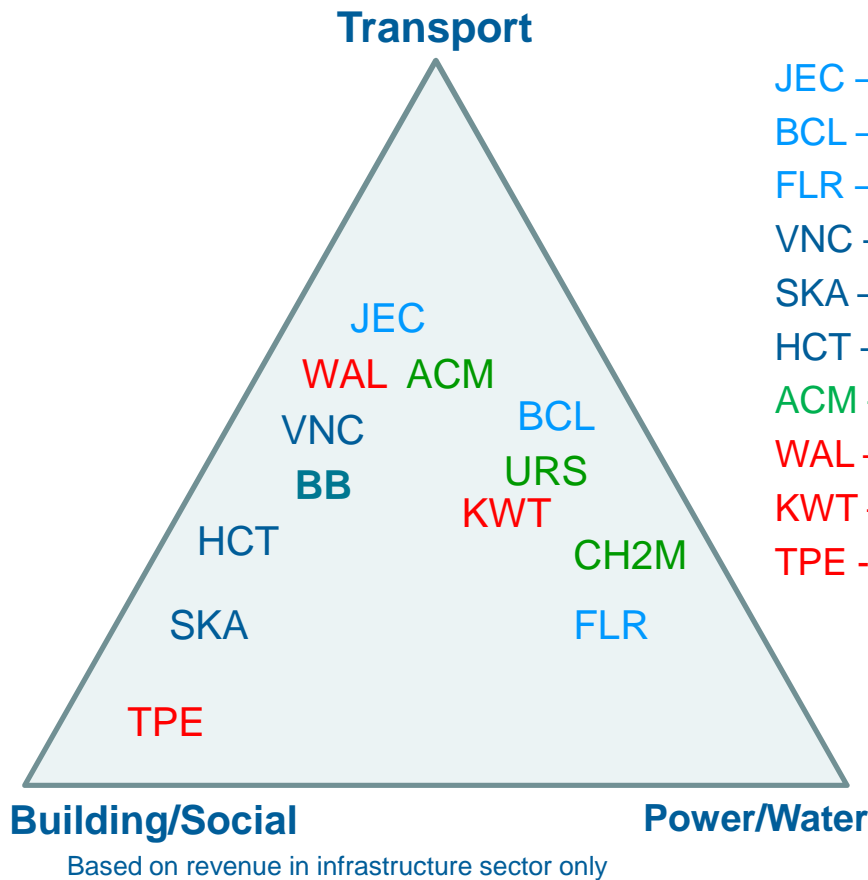
Balfour Beatty is in the top echelon of global infrastructure players



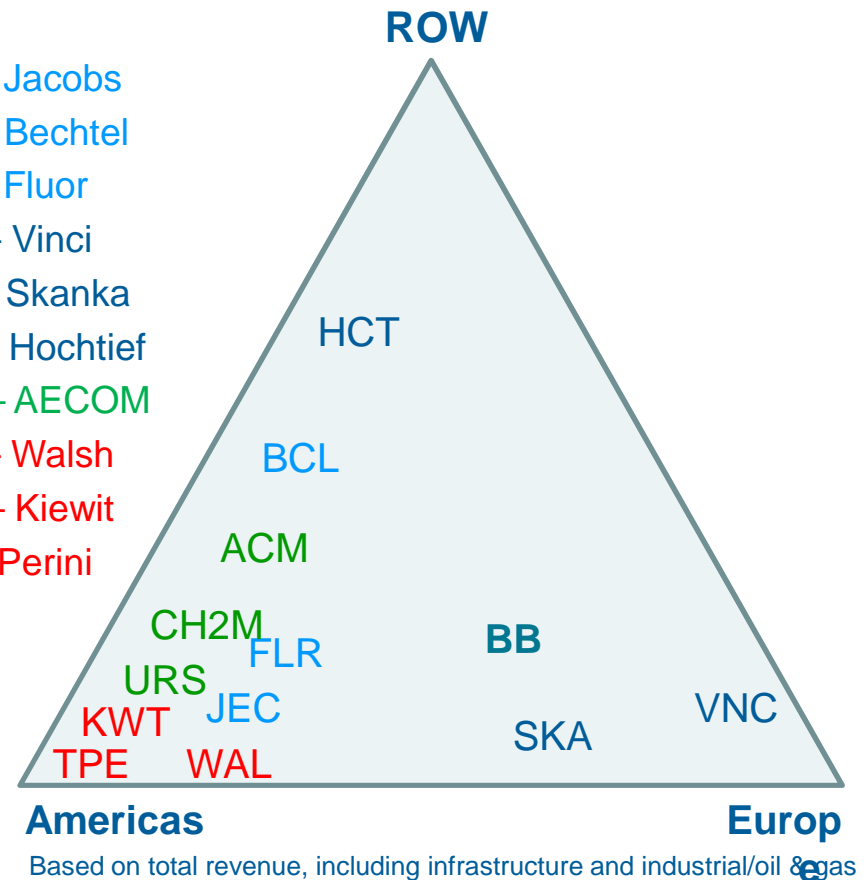
Source: Engineering News Record

Global infrastructure players have a range of capabilities and international coverage

Infrastructure Sectors



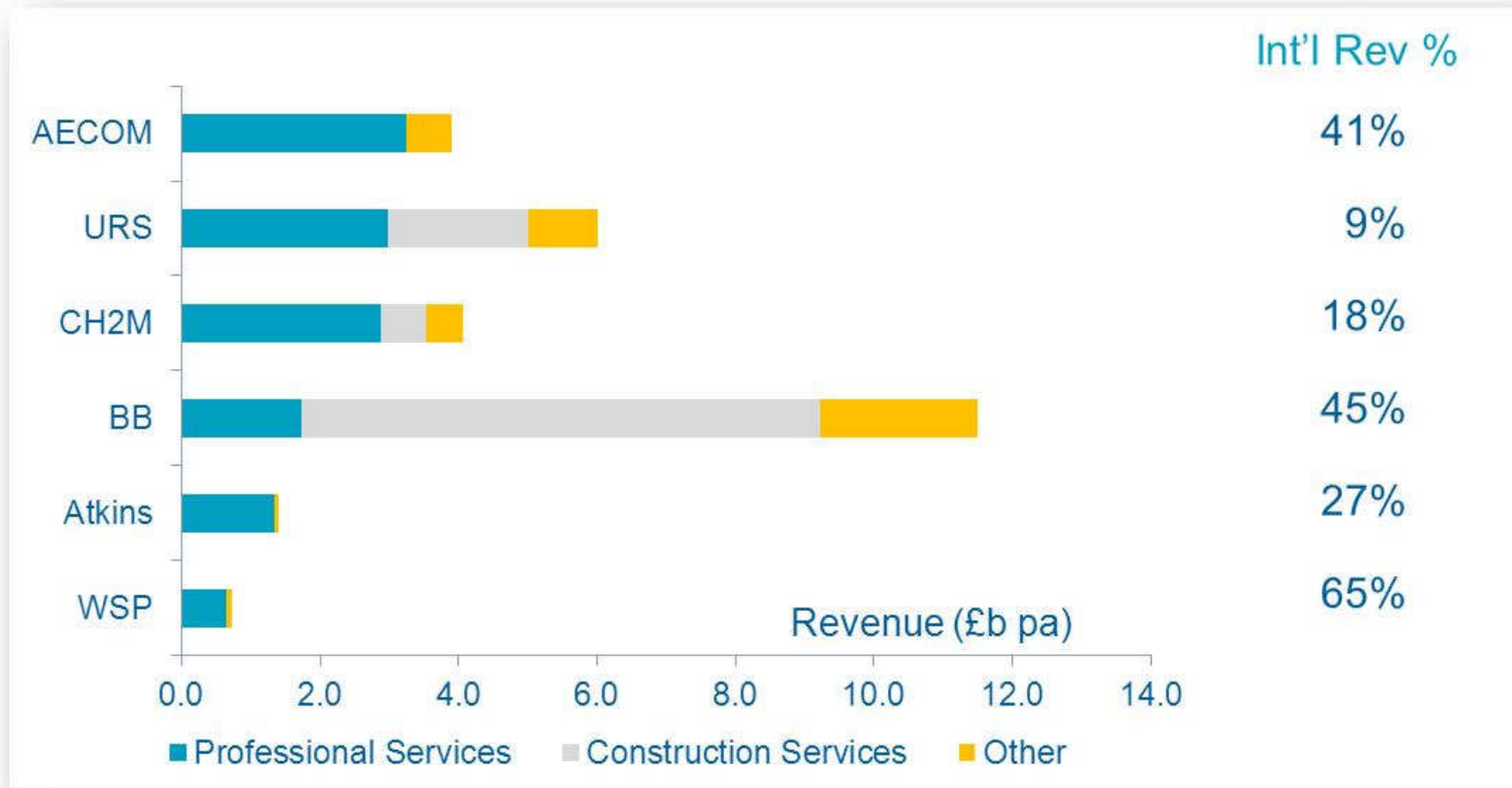
Geographies



- JEC – Jacobs
- BCL – Bechtel
- FLR – Fluor
- VNC – Vinci
- SKA – Skanska
- HCT – Hochtief
- ACM – AECOM
- WAL – Walsh
- KWT – Kiewit
- TPE - Perini

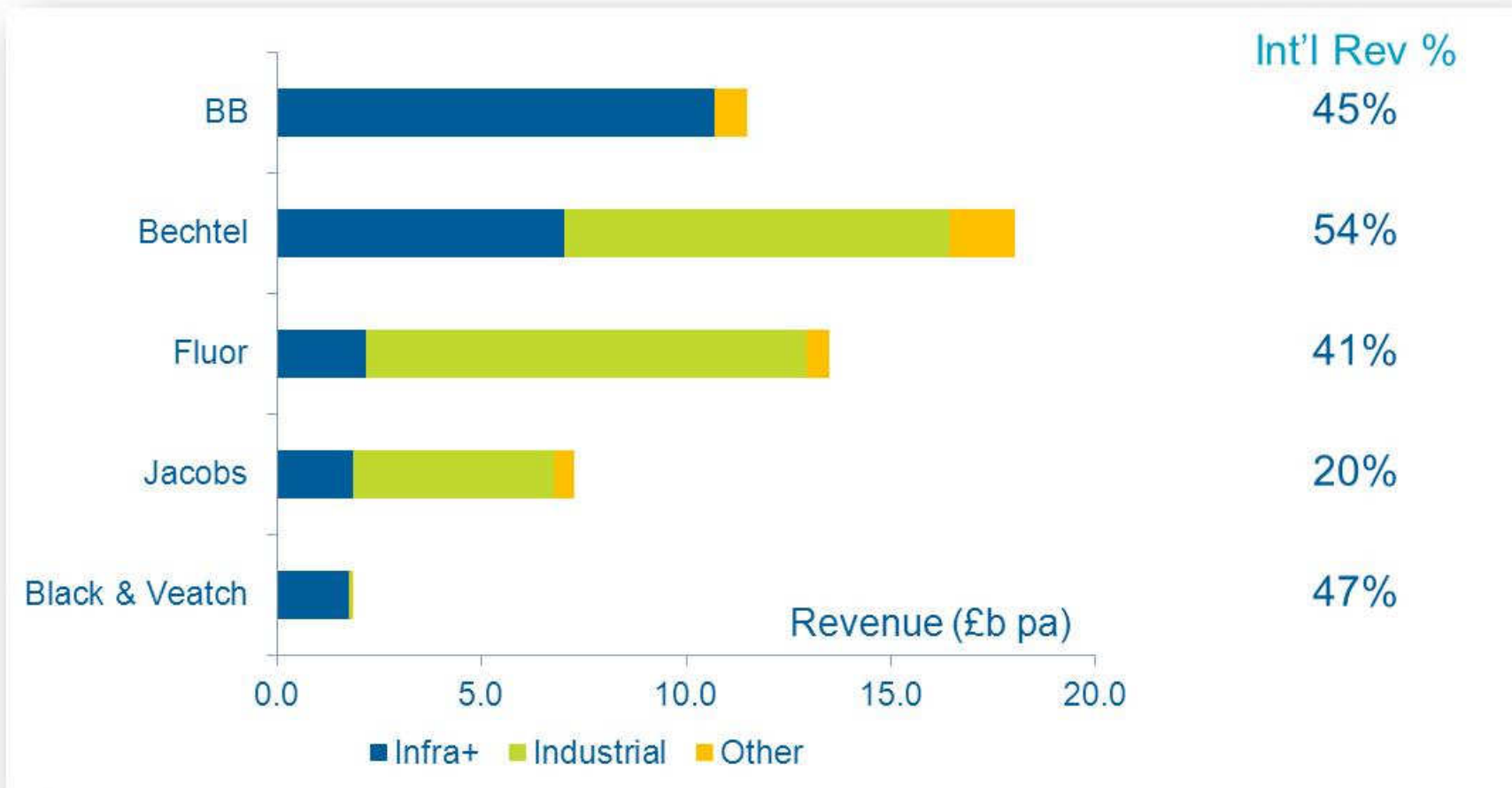
Source: Engineering News Record and company financial statements

Balfour Beatty is larger than its global PS peers and it has broader geographical coverage than most



Source: Engineering News Record and company financial statements

Balfour Beatty has a greater focus on infrastructure than the leading global E&C players



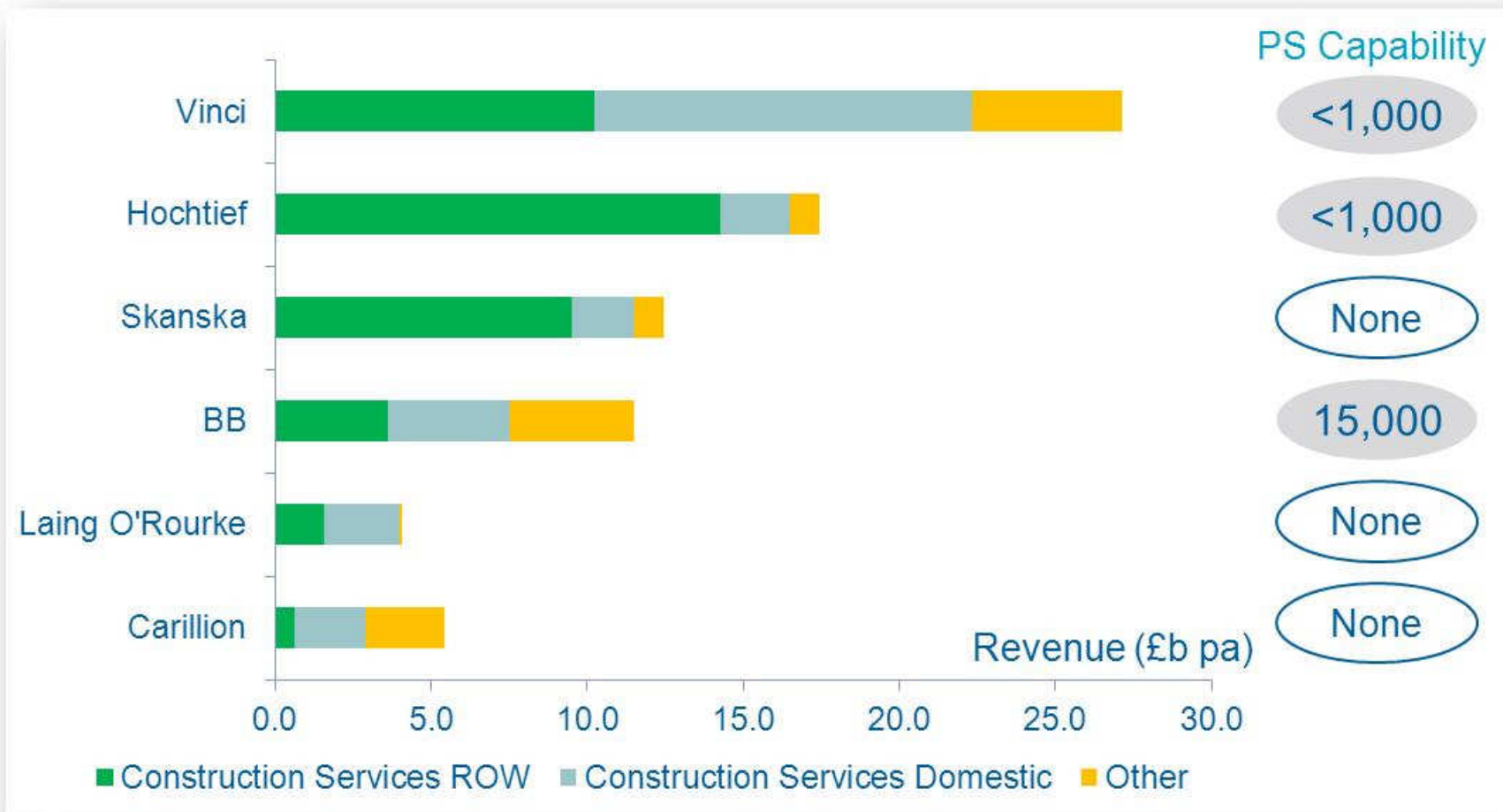
Source: Engineering News Record and company financial statements

USA construction players are focused on the USA and have narrower capabilities than Balfour Beatty



Source: ENR and company financial statements

European construction players have scale, geographical spread and PPP skills but in general lack a PS capability

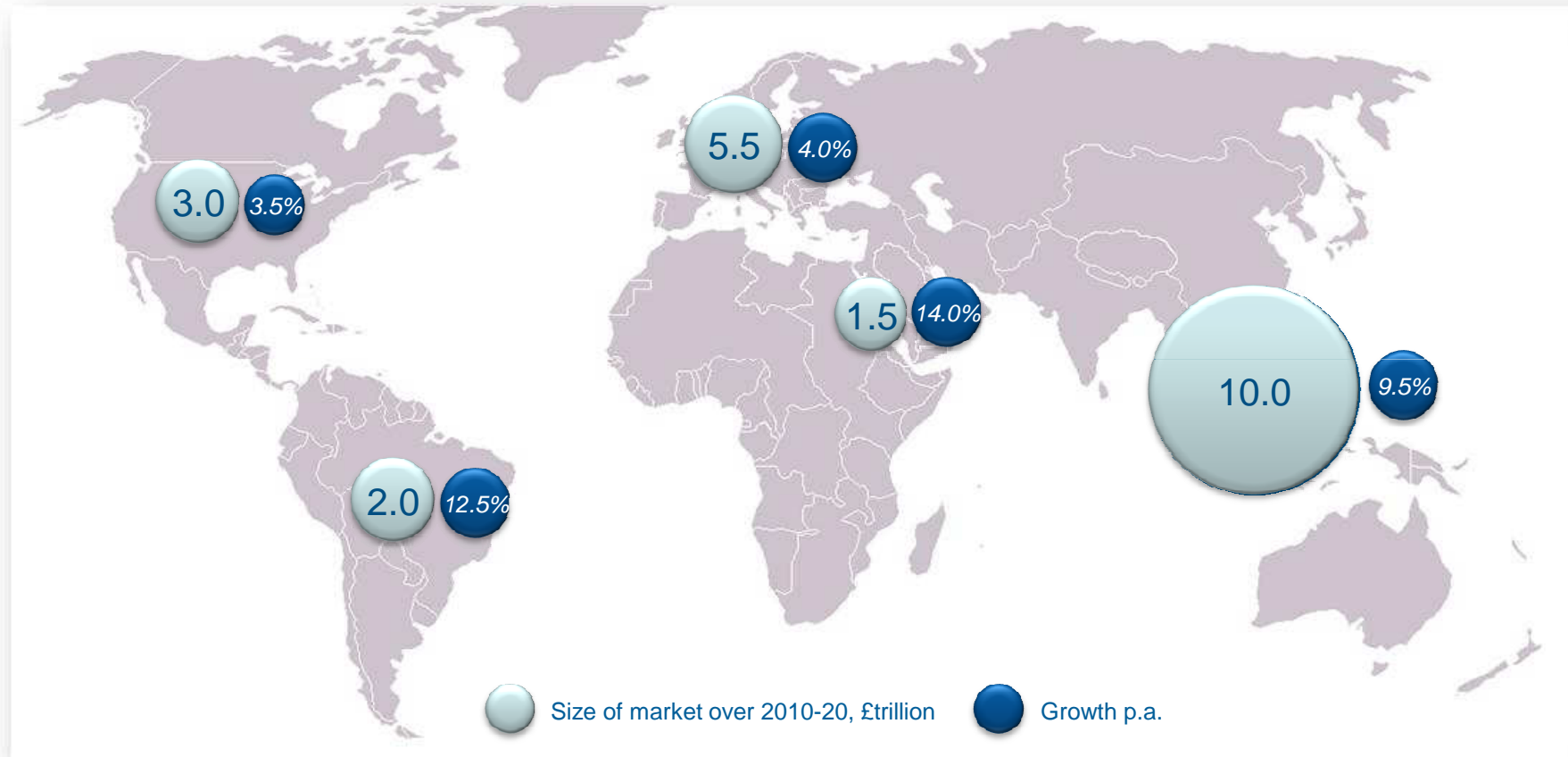


Source: ENR and company financial statements

Balfour Beatty has a distinct combination **Balfour Beatty** of attributes that differentiate it from its peers

- Scale
- International reach
- Infrastructure focus
- Professional services expertise
- PPP and infrastructure investment skills

The global infrastructure market is expected to be £20+ trillion over 2010-20



Source: Global insight

Developed economies

- Mature assets
- Sophisticated and regulated procurement environment
- Whole life and operating costs a consideration
- Large complex projects and programmes
- Backlog of infrastructure renewal and upgrading of existing assets
- PPP market continuing in UK and developing in USA, Canada and elsewhere



- Integration capability
- In depth understanding of local supply chain
- Support services and understanding of operational constraints
- Scale important

Emerging economies

- Enormous need for new infrastructure
- Customers and procurement generally less sophisticated
- Business environment can be challenging
- Deficit of local skills - local players typically focused largely on construction
- Financing of high levels of investment



- Planning
- Technical expertise
- Programme management
- PPP expertise

Concluding remarks

- Balfour Beatty has multiple capabilities that it can bring together for complex customers:
 - Technical expertise
 - Local presence
 - Integration capability
- Balfour Beatty has scale
- Balfour Beatty has global coverage, with access to both developed and emerging economies

Balfour Beatty

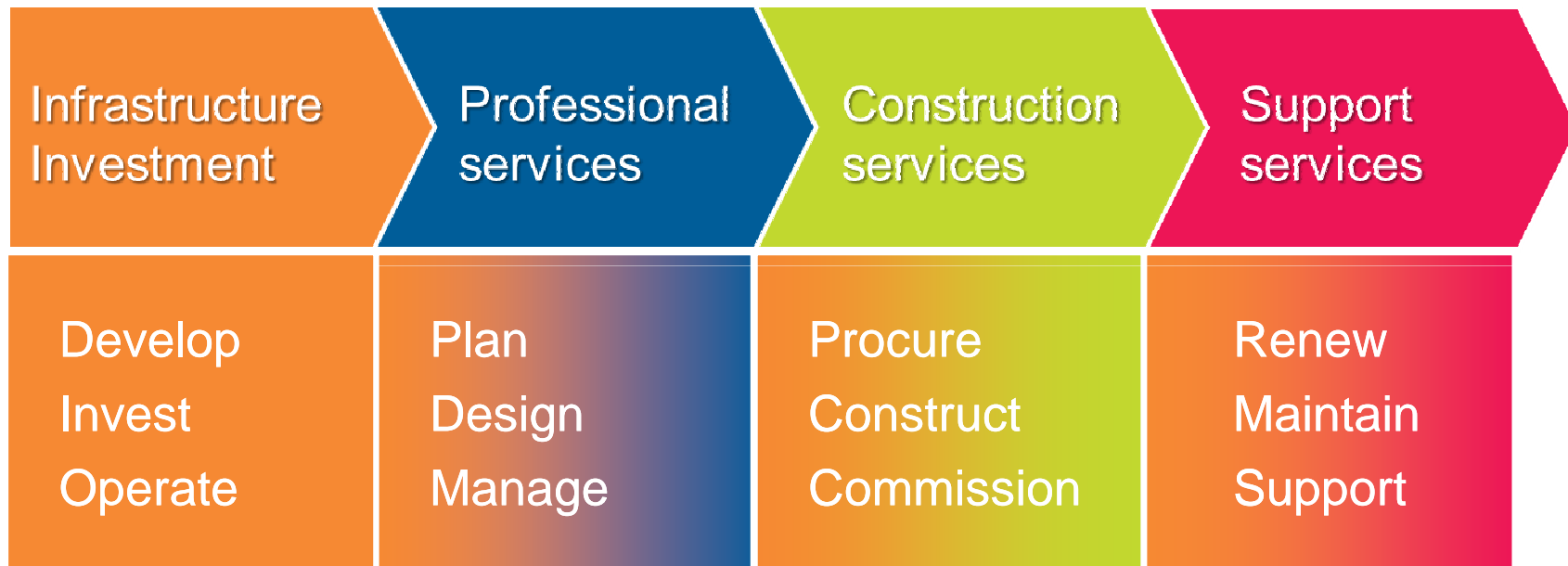
Anthony Rabin

Deputy Chief Executive

The Investments Agenda

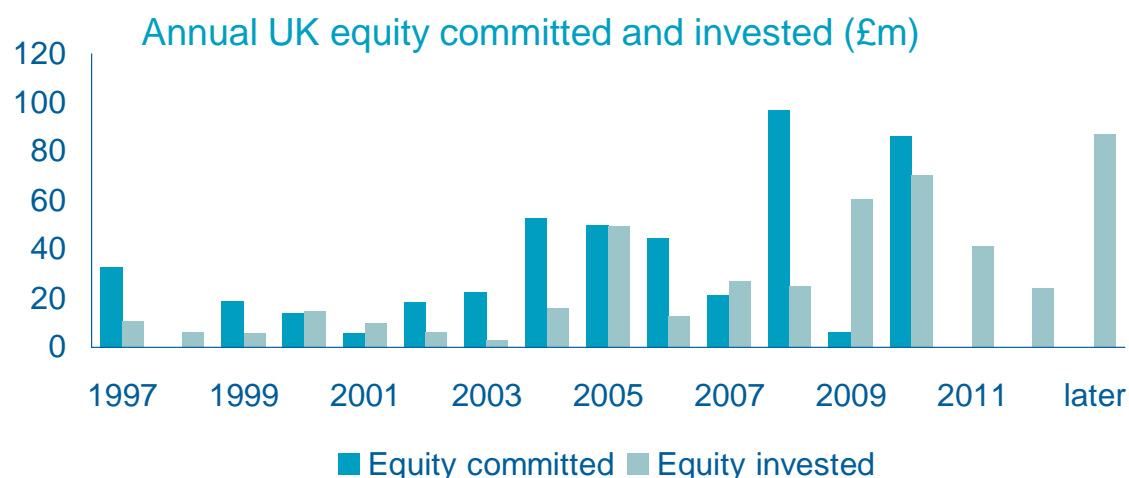
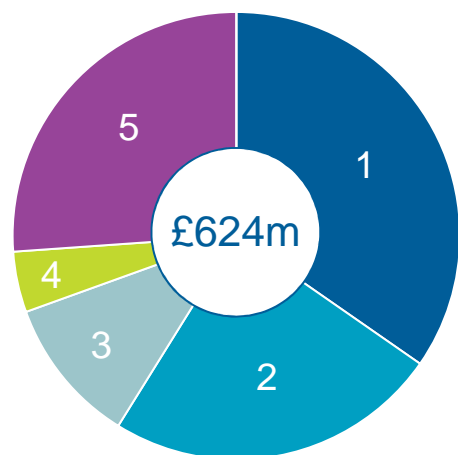
- Our existing business – an update
- Evolution of our investment strategy
- Our future markets – a selection
- An Infrastructure Funds Management business

Services across the entire infrastructure lifecycle



Investments is key to our infrastructure value creation

A substantial portfolio



2010 H1	Equity Committed	Cash Invested	Directors' Valuation
Total PPP capital values by sector	£497m	£357m	£624m
1. Roads: 13 projects	£161m	£93m	£223m
2. Hospitals: 9 projects	£101m	£71m	£146m
3. Schools: 14 projects	£58m	£52m	£67m
4. Other: 5 projects	£18m	£6m	£17m
5. US Military Housing: 18 projects	£158m	£135m	£171m

A leading UK PPP market position

Sector	Total original project capex £m	Projects in which BB holds equity £m	BB Market share	Typical BB Equity
Hospitals	11,933	1,898	16%	50%
PFI Schools (over £20m)	5,732	712	12%	50%
BSF (PFI content only)	3,771	651	17%	80%
Infrastructure without LU PFI's	8,727	2,054	24%	50% roads 100% SL*

* SL : street lighting

2010 – An excellent UK performance

	To date	Year end 2010	Year end 2011
Bids - Won	10*		
- In progress			19**
Phase 2 BSF	3		
Equity	£90m		
Construction Value	£665m		
FM Value	£370m		
Disposals AES / ERI	Discount rate 7%		

* BSF 4, Street Lighting 3, Blue Light 1, Roads 1, OFTO 1

** Waste 4, Hospitals 4, Blue Light 3, Highways 5, Rail 1, OFTO 1, Other 1

An evolving investment strategy

- Mature business – realise value
- Retention of people and business – long term client relationships
- Selective and sequential disposal of assets - disposal of £200 - £300m value over next 4/5 years
- Probable gains totalling £20-25m pa, 3p per share pa
- Generate re-investment opportunities plus enhanced cashflow - increment to annual dividends
- Ensures investment business runs cash positive after at least £50m pa investment

Investments – the developer model

- Balfour Beatty will continue to be a substantial global investor in privately financed infrastructure
- Increasingly act as a developer
 - Greater emphasis on post construction disposals / minority stakes
 - Fees on financial close
- Boost to earnings
 - Gains on disposal
 - Fees

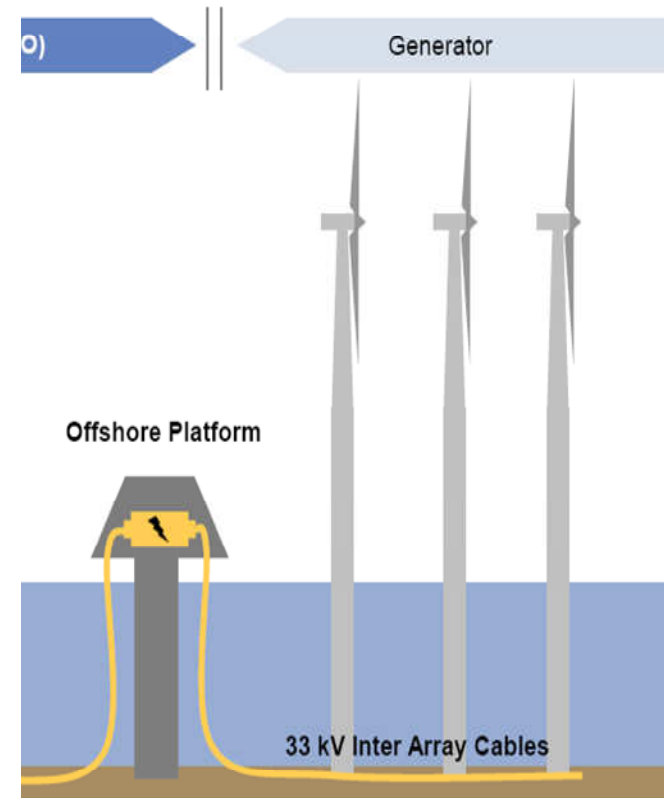
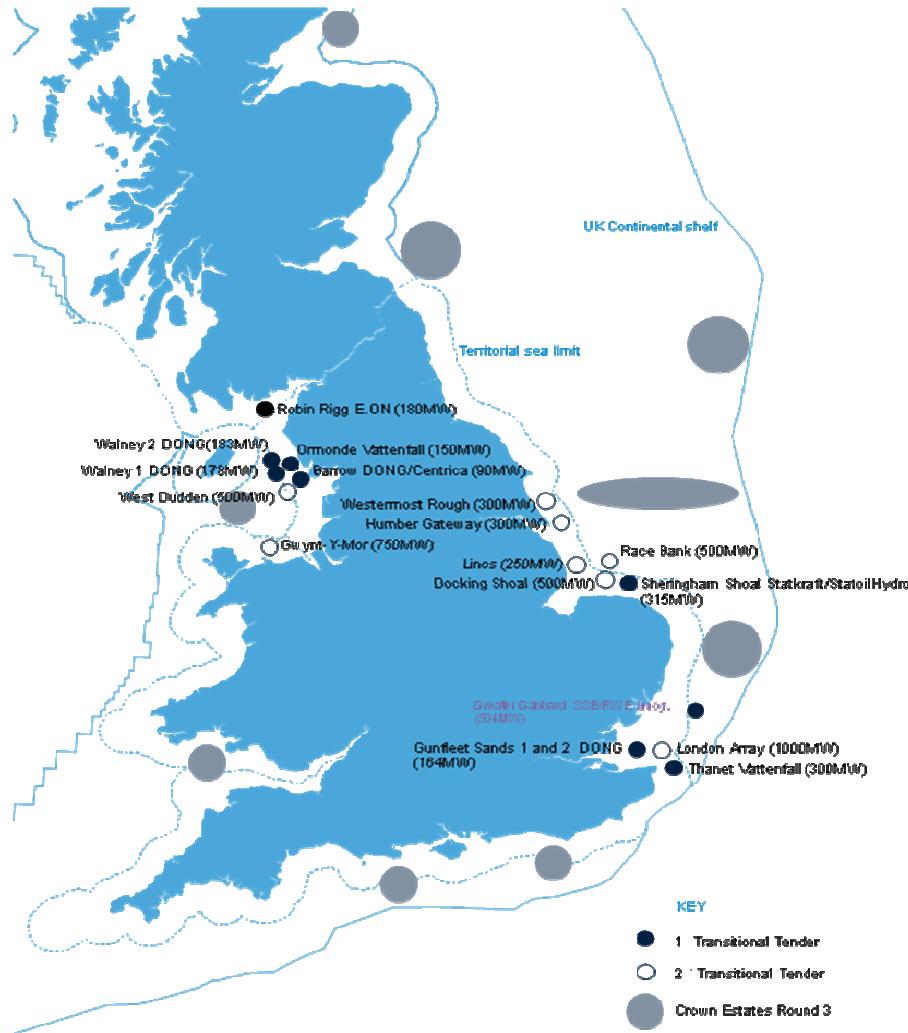
UK PFI – Future market still has potential

- Deficit reduction – CSR
- Political ambivalence on PPP
 - abandonment of PPP Credits BUT
 - post election positive departmental statements – Transport, Health, DfE, MoJ
- Increasing complexity – income risk
- Possible future 3-year PPP market c.£5 bn

Significant Canadian PPP opportunities



UK Offshore wind – a new opportunity



Infrastructure Funds Management

This presentation was edited from its original on 17 December 2010 for certain US regulatory reasons.

The Investment Agenda

A summary

- High quality PFI and other greenfield investment opportunities
- Changing the shape of the UK portfolio – selective disposals – release of cash
- Greater emphasis on development activities
- Establishment of Funds Management business expands income generation potential

Break

WEBCAST WILL RESUME AT 16.00PM

Balfour Beatty

Balfour Beatty

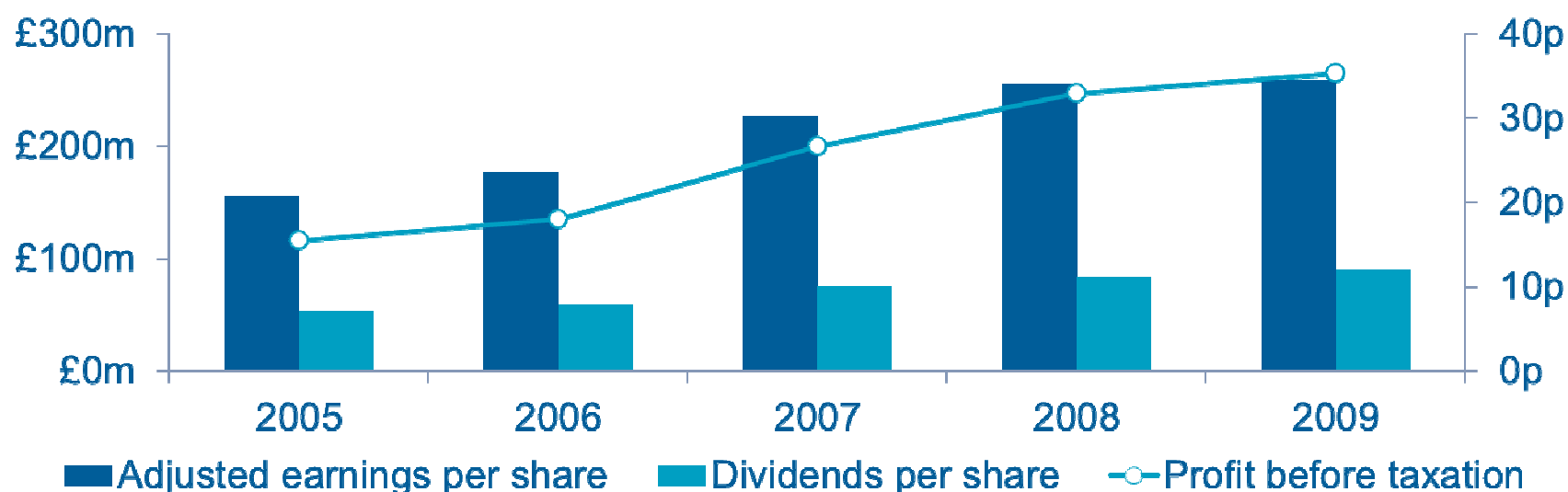
Duncan Magrath

Group Finance Director

Contents

- Review of past performance
- Factors affecting future performance
 - Infrastructure Investments strategy
 - Impact of acquisitions
 - Margin performance
- Change in the shape of the Group over the next five years
- Summary

Historic double digit earnings and dividend growth



- Growth from 2005 to 2009 in PBT has been 23% pa through a mixture of acquisitions and organic growth
- Excluding PB, cumulative net acquisition spend of c. £750m up to end 2009, with a return of 14% - 15% pa including subsequent growth
- Growth in adjusted EPS over that period has averaged 13% pa
- Dividend growth of 14% pa

Strong balance sheet

£m	June 2010
Net cash (excluding PPP)	500
Net current liabilities	(937)
Infrastructure investments [†]	343
Retirement benefit obligations (net of tax)	(451)
Goodwill and intangibles	1,462
Other – net non-current assets	81
	998

[†] Investments in JVs and associates and wholly-owned PPPs

Earnings and dividends from infrastructure “developer” model

- Regular stream of disposals generating:
 - £200m-£300m value over next 4-5 years
 - disposal gains of £20m pa
- From 1 January 2011 disposal gains to be treated as part of adjusted profit before tax, and in the base for dividend calculation

Continuing positive cash generation

- Profitable business performance including regular investments disposal programme

- Cash inflow from growth in construction business

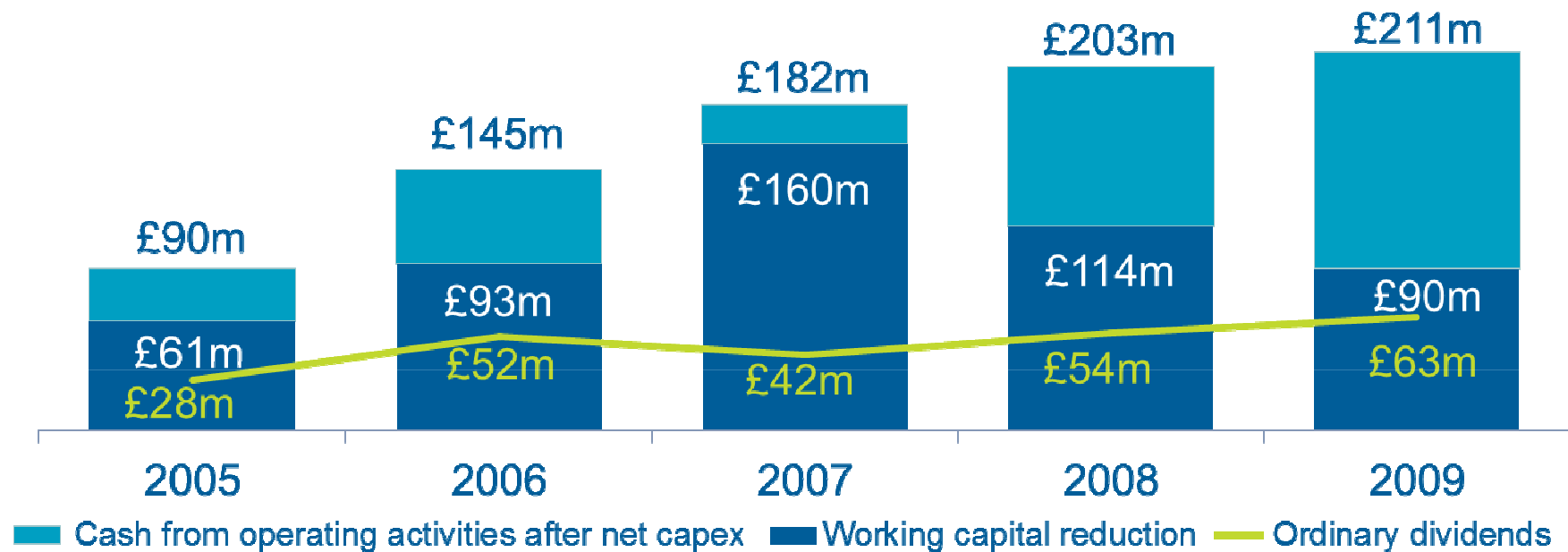
can fund

- Growing dividends
- Pension deficit payments

and

- Allow for acquisition programme

Strong underlying cashflows continue to allow scope for selective acquisitions



- Over 5 years there is scope to increase dividends and potentially to fund £500m – £700m of selective strategic acquisitions

Note: In 2006 payment of interim dividend was accelerated so in that year two interims and one final were paid

Acquisition programme weighted towards Professional Services and overseas

- Targeting to double the profits earned from our Professional Services business
- Continuing to expand our Construction Services business, principally outside UK
- Where needed, acquiring additional skill-sets for our Support Services business
- Investments business to fund investment through disposal proceeds

Improving profit margins*

	2009	Margin effects	Direction of margin movement over 5 yrs
Professional Services	4.5%†	+ utilisation + collaboration + EPC contracting	Increase to 6% to 7%
Construction Services	2.8%	+ cost effectiveness +/- operational delivery +/- mix effect	Stable
Support Services	3.8%	+ scale benefits/cost effectiveness + scope of services - mobilisation costs - margin pressure	Increase to 4% to 4.5%
Group (including Investments and corporate costs)	2.7%		Increase to 3.5% to 4%

† Pre-acquisition margin for PB

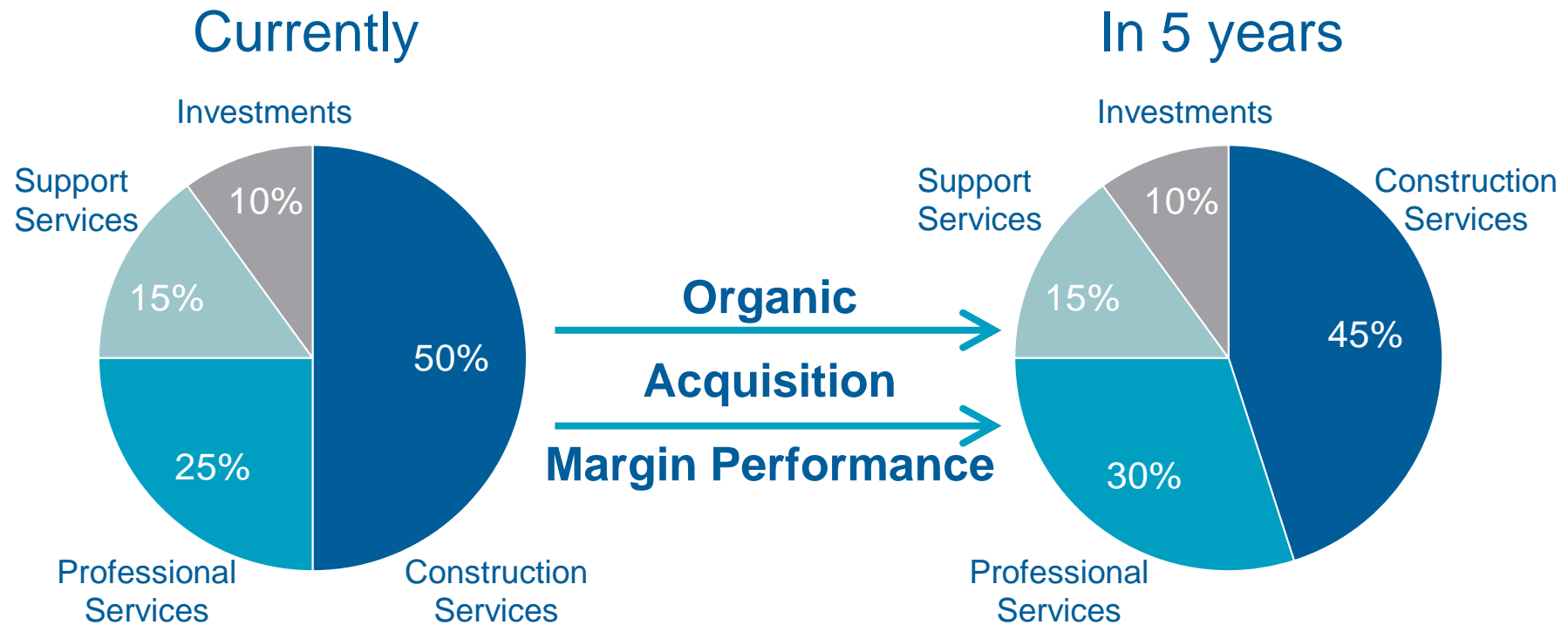
* Margin % is profit from operations before exceptional items and amortisation as a percentage of revenue including JVs and associates

Growth expectations

	5 year profit growth prospects	
	Organic	Acquisition
Professional Services	++	++
Construction Services	+	+
Support Services	+++	+

▶ Over the medium term our organic growth should exceed growth in infrastructure markets and be supplemented by growth from selective strategic acquisitions

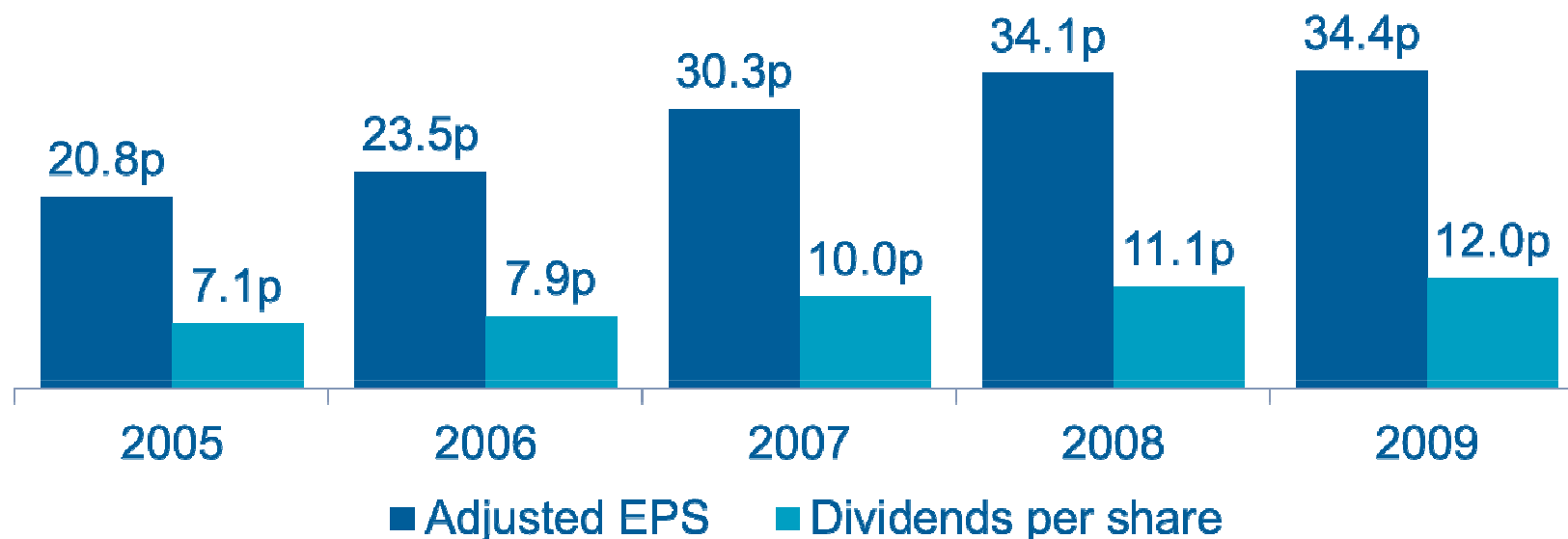
Increasing proportion of profit from Professional Services



- If calculated by value, Professional Services would account for a greater proportion than shown due to higher multiples
- Despite “developer model”, profit will still understate value creation from Investments for the Group

% shown is percentage of profit from operations before corporate overhead (for June 2010, £8m incentive incom excluded from figures)

Consistent growth in dividends



Historic performance

- Growth in adjusted EPS 13% pa
- Growth in dividends 14% pa
- Average dividend cover 3.0x

Future performance

- Earnings growth including gain on sale of investments will drive dividend growth
- Scope for reducing dividend cover

Summary

- Investments disposals will generate cash to re-invest in business, and a regular stream of disposal profit to further drive earnings and dividends
- Group margins will improve through performance of Professional Services, focus on cost efficiency and mix of business
- Continuing cash generation will support growth in dividends and acquisitions

Balfour Beatty

Ian Tyler

Chief Executive

Fundamentals of our business

- Global scale
- Infrastructure focus
- Breadth of capabilities
- Core skills to leverage those capabilities

Infrastructure markets

- Growing need to renew post-war infrastructure in developed markets where we have market-leading positions
- Shift in the UK from social infrastructure to civil infrastructure
- Fastest growth expected in emerging markets which we will access through our project development and professional services capabilities

Potential value over the next five years

- Growth, particularly in Professional and Support services
- Strong cash generation supports capacity for £500-700 million of acquisitions
- Group margin expansion to 3.5-4%
- Realising value from infrastructure assets through regular disposals: the 'developer model'

Returns to shareholders

- Progressive dividend policy
- Incremental dividends from the 'developer model' approach to infrastructure assets

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