

## *News Release*

3 July 2014

### BALFOUR BEATTY TRADING UPDATE

Balfour Beatty plc, the international infrastructure group, is providing this trading update ahead of its results for the half-year ended 27 June 2014 which will be announced on 13 August 2014. This replaces the half year trading update scheduled for 10 July 2014.

#### Overall Performance

We have seen a further worsening in the trading performance of the mechanical and electrical engineering (Engineering Services) part of our UK construction business since our Q1 Interim Management Statement. This further deterioration amounts to a £35 million profit shortfall but will be broadly offset by further targeted PPP disposal gains in the second half of 2014. Elsewhere, there has been no material change in the Group's operations. Overall Group pre-tax profit expectations for 2014 remain unchanged since the Q1 IMS, in the range of £145 – £160 million.

#### Divisional Performance

As previously highlighted we are on a 12-18 month programme to restore our UK construction business to a firm footing. Whilst the regional and major projects businesses, which comprise 90% of the UK construction business, are on track and continue to perform in line with our expectations, there has been further deterioration in the Engineering Services business.

Earlier in the year we appointed new management to Engineering Services to strengthen management control and project reviews. This has improved transparency and introduced greater rigour and scrutiny of contract positions. As a consequence we have identified a further £35 million profit shortfall within Engineering Services. £30 million of this relates to a small number of existing contracts, predominantly in the London area: £20 million from a further deterioration in the projects previously highlighted, and £10 million due to issues identified on other contracts.

A number of factors have contributed to this further deterioration. These include design changes, project delays, rework on projects and contractual disputes on a number of projects.

Greater selectivity in a slow market coupled with rigour in estimating and tender margins has resulted in a low order intake, a reduction in revenue expectations and therefore a £5 million reduction in forecast profit from new orders in 2014.

Given these issues, we are reviewing the size and geographic footprint of the business with the aim of ensuring a smaller, more focussed business. In central London, Engineering Services will only be working with Group companies where it can influence design and add value for customers.

Elsewhere in Construction Services, our US Construction business continues to perform well and in line with our expectations. In the Middle East, progressively improving conditions in the broader Dubai construction market are in the short term being offset by continuing challenging conditions in the M&E market. The market in Hong Kong continues to be strong, although the long term nature of recent project wins and delays to a small number of existing projects mean it will take time for these to feed through into financial performance.

Support Services is trading in line with expectations with good performances on our highways services contracts and rail renewals activities. In addition the division has performed well in the current framework competitions in the utilities sector.

In Infrastructure Investments we have continued to implement our PPP concession disposal programme, achieving gains totalling £51 million in the year to date. Given this very strong performance and the continuing favourable secondary market for infrastructure assets we are targeting further PPP disposals in the second half of 2014. Full year PPP disposal profits will be broadly in line with those achieved in the full-year 2013. Recognising the strength of the secondary market we are also intending to increase the Directors' Valuation at the half year.

Professional Services has performed well and in line with our expectations. In May we announced our decision to evaluate options for the possible sale of Parsons Brinckerhoff – a competitive sales process is now fully underway and proceeding in accordance with the Board's expectations.

The level of the order book remains broadly unchanged from £12.9 billion at the end of Q1.

## Financial position

The Group continues to operate with good balance sheet strength. Average net debt for the first half of 2014 was slightly higher than expectations at £420 million.

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## Conference call

Balfour Beatty will host a conference call for investors and analysts today, Thursday 3 July 2014, at 8:00 am (UK time). To join the call, please dial +44 (0)20 3427 1907 and quote confirmation code 2026903. A recording of the call and its transcript will be posted on our website approximately 24 hours after the event.

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### Notes to editors:

1. 2014 pre-tax profit expectations are based on the current Group structure.
2. Balfour Beatty ([www.balfourbeatty.com](http://www.balfourbeatty.com)) is an international infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets; from finance and development, through design and project management to construction and maintenance.

Our businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients principally in the UK

and the US, with developing businesses in Australia, Canada, the Middle East, South Africa and South East Asia.

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors focus on infrastructure - transportation (roads, rail and aviation), power and energy, water, and complex buildings (both commercial and social).

Balfour Beatty employs 40,000 people around the world.