Balfour Beatty

News Release

8 November, 2012

BALFOUR BEATTY 2012 Q3 IMS

Balfour Beatty, the international infrastructure group, announces its 2012 Q3 Interim Management Statement, covering the period 30 June to 7 November 2012.

Trading

Our Professional Services, Support Services and Infrastructure Investments businesses are demonstrating resilience and strength in a challenging economic environment, performing well and in line with our expectations.

In Construction Services, difficult trading conditions have persisted in the period in our two major markets. US construction markets remain depressed, and the performance of our UK construction business is weaker than anticipated. Structural problems in European Rail markets added to the challenges. We have made good progress in implementing both phases of our cost efficiency programme and that has been helpful in offsetting some of the weakness.

As a result and based on the outturn for the third quarter, profitability in 2012 will be slightly lower than expected at the time of the half-year results although this will be somewhat offset by a slightly lower effective tax rate. Furthermore, the conditions that have led to a recent decline in the order book point to 2013 being a difficult year for Construction Services.

Operating performance

Order book

After a small decrease in the first half in the Construction Services order book, we saw a more significant decline in the third quarter. As a result, even though order intake in our other businesses was stable, the Group order book closed at £14.4 billion at the end of September, down from £15.0 billion at the end of June.

Professional Services

Professional Services has continued to perform well, benefitting from its geographical diversity and the less cyclical nature of its civil infrastructure work. The order book remained stable overall, with small reductions in the UK and US offset by increases in the rest of the world.

Revenue in the third quarter was in line with expectations, with a decline in the UK being offset by modest growth in the US. We made continued good progress in the rest of the world, particularly in Qatar which is a new and growing market for our Professional Services division. Last week our business in the North East of the US was disrupted by the impact of Hurricane Sandy, although we do not think it is likely to have a material impact on our financial performance.

The division has maintained its focus on increasing utilisation rates and combined with the successful completion of some large projects in Asia Pacific, this is helping to improve profitability, putting the division on track to achieve its medium-term margin targets.

Construction Services

In the US construction market, the positive leading indicators seen in the five months to March 2012 reversed, with the five subsequent months showing negative indicators, pushing market recovery further out than initially envisaged and keeping market volumes at a depressed but stable level. In this environment, our institutional building business has suffered from weak federal demand and the general lack of larger complex projects where there is greater opportunity to differentiate ourselves. In contrast, the prospects for our civil infrastructure business remain positive with some large design-build and PPP projects being tendered into the market. Overall, our US construction business has performed in line with our expectations, although the order book has decreased.

In the UK, we are seeing further market deterioration. On the one hand, the business is continuing to migrate towards smaller contracts in a market with very few major projects. Approximately half of our order book is now in our regional business, up from a third a year ago. At the same time, the supply chain is suffering which in turn, reduces our ability to negotiate terms that match the worsening market conditions. The adverse impact of these recent developments is expected to reduce profitability slightly this year. Looking ahead, there is reduced visibility due to smaller projects and shorter lead times, but in the absence of an immediate improvement in these emerging market conditions, we expect further decline in activity levels and pressure on margins into 2013.

We have continued to make progress in restructuring our construction operations in both the UK and the US. The reduced structural cost will, in part, offset the impact of volume and margin pressure referred to above.

Our Rail construction business performed below expectations in the third quarter. Activity levels in Italy and Spain have become critically low. This, combined with the increasing commoditisation of work in Germany and the UK, is expected to give rise to a further adverse impact on profits of around £10 million in 2012. We are currently undertaking a review of the operations across our European rail business in the light of these structural factors.

Cost efficiency update

Our cost efficiency programmes continued to make good progress. Phase 1, which entails savings from indirect procurement and combining transactional accounting and payroll in the UK in a single Shared Service Centre in Newcastle, will reach its run-rate savings of £30 million by the end of 2012.

Phase 2, the broader programme we announced in March 2012 with a target of £50 million annual savings by 2015, is underway. The UK Construction business has made significant progress in restructuring its operations in the quarter. The new operating structure, which will be in place by January 2013, combines six operating companies into one, streamlining the number of locations and creating a more efficient back office with 650 fewer employees. These initiatives constitute the largest portion of the current target savings. The new operating structure will also be more flexible, agile and adaptable to change, should market conditions require.

The US Construction business is in the process of reducing its operating structure from five regions to three, with a significant focus on leveraging resources across a broader geographic base. Furthermore, Parsons Brinckerhoff has announced plans to move the majority of its support functions from New York City to Lancaster, Pennsylvania, which is expected to improve its cost effectiveness from April 2013 onwards. The successful implementation of our initiatives to date gives us confidence that we will achieve the majority of the Phase 2 savings in 2013.

Support Services

Trading has been consistent with expectations in the period. The order book was stable with an increase in the local authority outsourcing contracts - including the North Tyneside business services contract - offsetting the anticipated modest decline in the Utilities (water and power) order book.

Revenue grew year on year in the third quarter; WorkPlace, our facilities management business, and Utilities were particularly good performers.

Profit performance has recovered from cost increases incurred in the first half and the division is on track to meet our expectations.

Infrastructure Investments

Performance has been resilient given the long-term and stable characteristics of this business. In the period, we have been working on bringing our preferred bidder positions in US military housing to financial close. We are also diversifying the business into new geographies such as Canada, the USA and Australia, and new sectors such as energy-from-waste and biomass, while developing investment models in addition to PFI and PPP.

A good example of diversification is the preferred bidder award in August of University of Edinburgh's £110 million Holyrood Postgraduate Student Accommodation and Outreach Centre project. The 50-year concession contract involves the design, build and maintenance of student accommodation facilities for 1,160 postgraduate students, as well as an outreach centre which will become the focal point for the University's community-based teaching activities and continuous professional development courses.

Financial position

Average net debt for the nine months to the end of September was £15m. This reduction in cash is a reflection of further working capital outflow in UK Construction and the delay in the anticipated improvement in US Construction orders. While we still expect some seasonal recovery in working capital by the year-end, a significant change in the underlying position is unlikely.

Outlook

The construction market backdrop has become more difficult with the continued absence of the larger complex projects coming to market and a reduction in confidence in the US building market following some encouraging signs earlier in the year. The impact of these issues is evident in current performance and the reduction in our order book which collectively point to 2013 being a difficult year for Construction Services.

We have been managing our business on the basis that market conditions would be tough, and this has been an effective strategy. We will take further action, both operationally and strategically where necessary, to mitigate any adverse impacts on our business.

In the medium and long term, we are confident that our position in infrastructure markets, our focus and competitive advantage in the transportation, rail, power, water and mining verticals, and our initiatives to access growing markets such as Australia, Canada, Brazil and India will stand us in good stead as well as making the business more robust.

ENDS

Conference call
Balfour Beatty will host a conference call for analysts and investors at 8:00 (UK time). To join the call, please dial +44 (0)20 7784 1036 and quote confirmation code 1896430. A recording of the call and its transcript will be posted on our website within 24 hours of the event.

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This document contains forward-looking statements which have been made in good faith based on the information available at the time of its approval. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated.

<u>Notes to Editors</u>:

1. Balfour Beatty (www.balfourbeatty.com) is a world-class infrastructure group with capabilities in professional services, construction services, support services and infrastructure investments.

   We work in partnership with our customers principally in the UK, continental Europe, the US, South-East Asia, Australia and the Middle East, who value the highest levels of quality, safety and technical expertise.

   Key infrastructure markets include transportation (roads, rail and airports); social infrastructure (education, specialist healthcare, and various types of accommodation); utilities (water, gas and power transmission and generation) and commercial (offices, leisure and retail).

   The Group delivers services essential to the development, creation and care of these infrastructure assets including project design, financing and management, engineering and construction, and facilities management services.

   Balfour Beatty employs 50,000 people around the world.