Balfour Beatty



2010 Half-Year Results

11 August 2010



Duncan Magrath

Finance Director

Headline numbers

	HY 2010	HY 2009	Actual growth	Constant currency
Revenue	£5,199m	£5,072m	+3%	+3%
Profit from operations*	£151m	£113m#	+34%	+35%
Pre-tax profit*	£141m	£107m#	+32%	
Adjusted eps*	15.5p	14.9p# ^	+4%	
Interim dividend	5.05p	4.79p ^	+5%	
Cash (used in)/from operations	(£21m)	£78m		
Net cash (excluding 100% PPP)	£500m	£394m		
Average cash for the half-year	£436m	£224m		
Order book	£14.6bn	£12.5bn	+17%	+14%

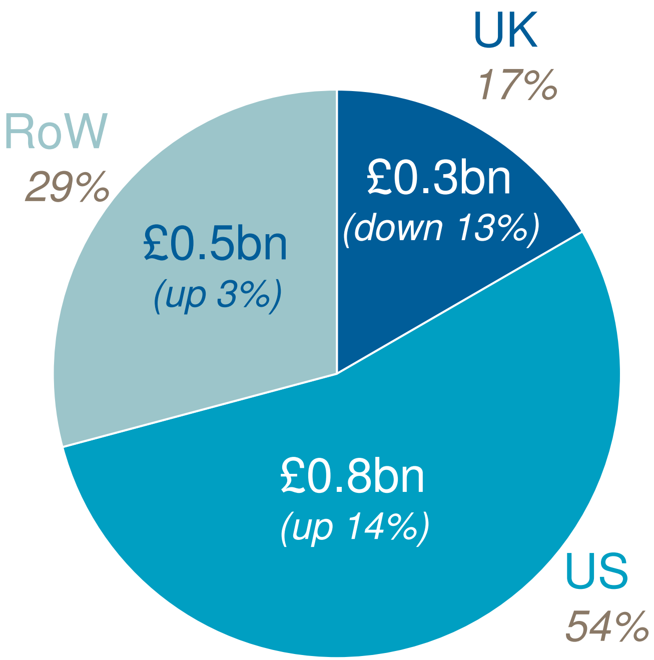
** before exceptional items and amortisation*
 # restated for the adoption of IFRIC 12 Service Concession Arrangements
^ restated for the bonus element of the 2009 rights issue

Professional services

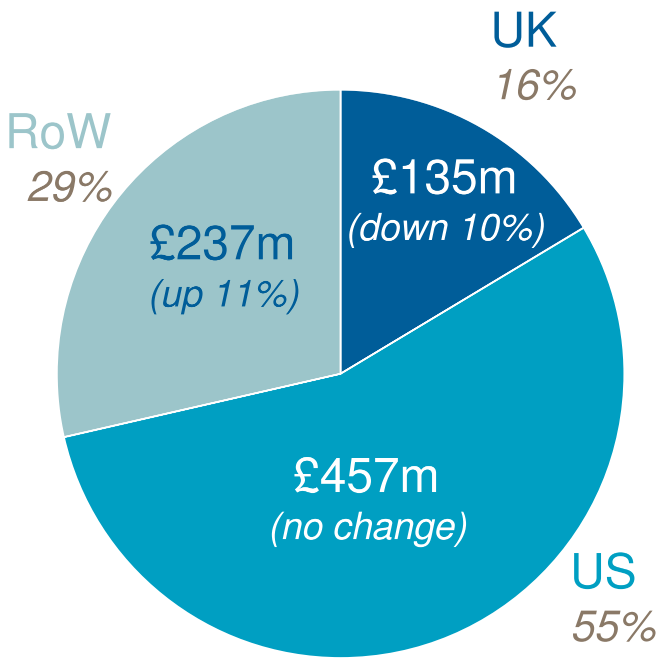
FY 2009		HY 2010	HY 2009
£1.4bn	Order book	£1.6bn	£0.3bn
£558m	Revenue	£829m	£157m
£13m	Profit	£49m	£6m
2.3%	Margin %	5.9%	3.8%

- Included above are results of Parsons Brinckerhoff acquired October 2009
  (HY 2010: Order book £1.3bn; Revenue £710m; Profit £35m)
  (FY 2009: Order book £1.1bn; Revenue £248m; Loss £1m)
  - Integration proceeding well
  - BBM and PB(UK) combined
- £8m increase in profit due to incentive income in old BBM contracts in the UK

Professional services – 2010 by geography



Order book
£1.6bn up 7%
(June 2009 pro forma: £1.5bn)



Revenue
£829m up 1%
(June 2009 pro forma: £822m)

Construction services

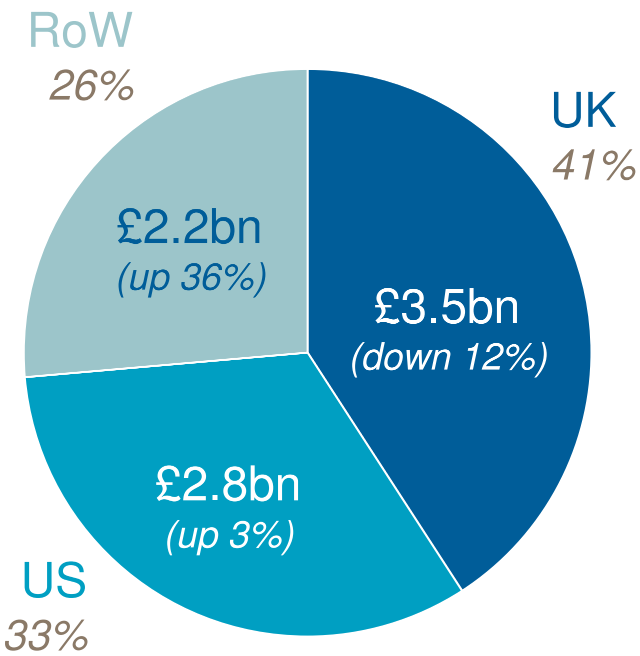
FY 2009		HY 2010	HY 2009	Actual growth	Constant currency
£8.2bn	Order book	£8.5bn	£8.3bn	+2%	-2%
£7,491m	Revenue	£3,282m	£3,785m	-13%	-13%
£207m	Profit	£83m	£71m	+17%	+19%
2.8%	Margin %	2.5%	1.9%		

- US – strong profit performance despite reduced revenue
- UK – reduced revenue from health sector and regional building, with profit performance strong in building and civils, but reduced in rail
- Hong Kong – good performance with strong order book growth
- Middle East – continuing growth outside Dubai in M&E; building business significantly downsized

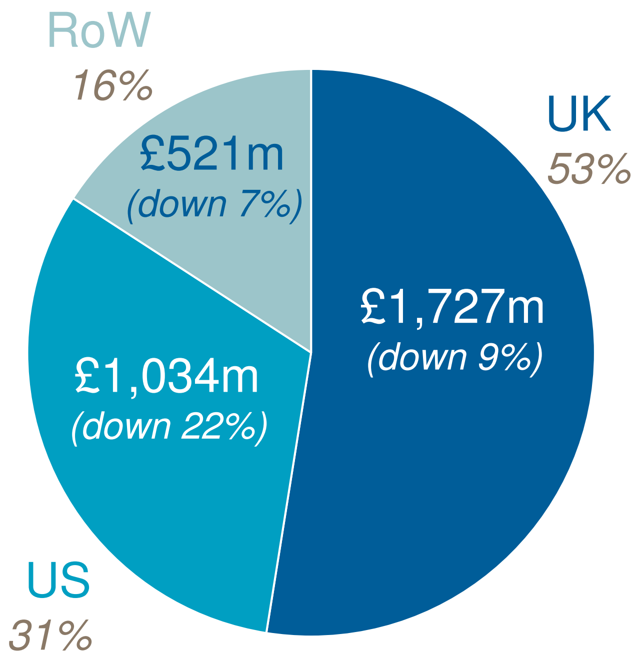
Cost base and efficiency

- Step change in efficiency focused on UK businesses
- Employee consultation underway to create a UK support centre:
  - to cover transactional accounting and payroll processes
  - likely to be based in Newcastle
  - to be part of support services
- Proposed benefits:
  - one-off implementation costs of £25m, plus further IT investment of £10m
  - annual cost reduction to reach £30m per annum by the end of 2012 (£20m to impact structural cost base, £10m to improve competitiveness at project level)
  - half of £20m annual structural costs to be realised in 2011

Construction services – 2010 by geography



Order book
£8.5bn up 2%
(June 2009: £8.3bn)



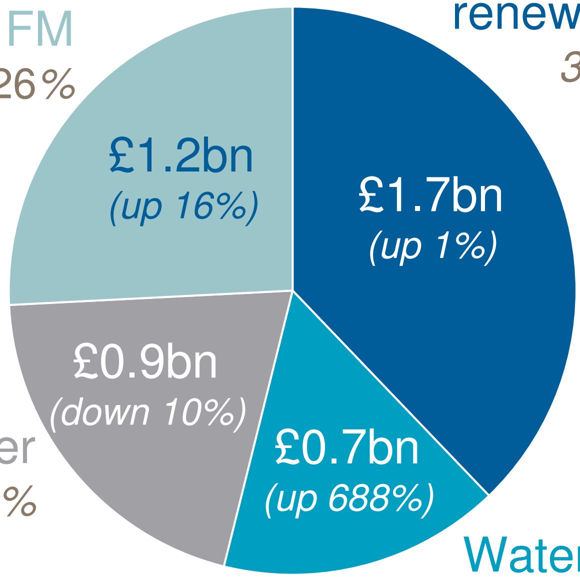
Revenue
£3,282m down 13%
(June 2009: £3,785m)

Support services

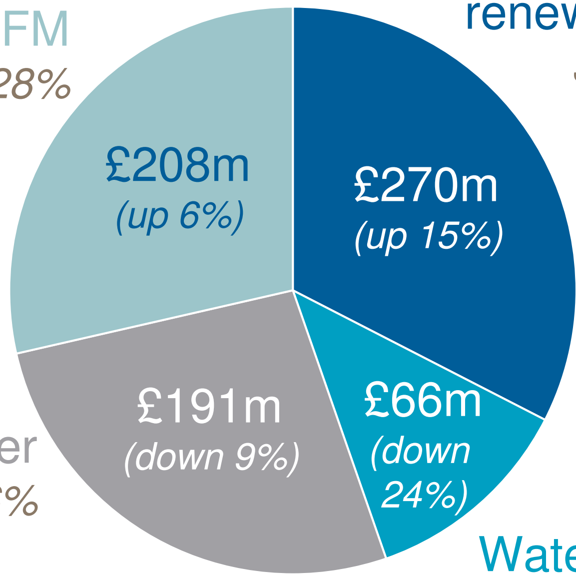
FY 2009		HY 2010	HY 2009	Actual growth	Constant currency
£4.5bn	Order book	£4.5bn	£3.9bn	+15%	+17%
£1,443m	Revenue	£735m	£726m	+1%	+1%
£55m	Profit	£21m	£28m	-25%	-25%
3.8%	Margin %	2.9%	3.9%		

- Contract wins for North East Lincolnshire and Southampton roads (July 2010)
- Extensions to contracts with Royal Mail and Anglian Water
- Start up of QinetiQ FM contract and full six months of M25 management contract
- Reduced UK rail renewals volumes
- Declining volumes at end of AMP 4 and start of AMP 5
- Successful start-up of National Operations Centre

Support services – 2010 by market



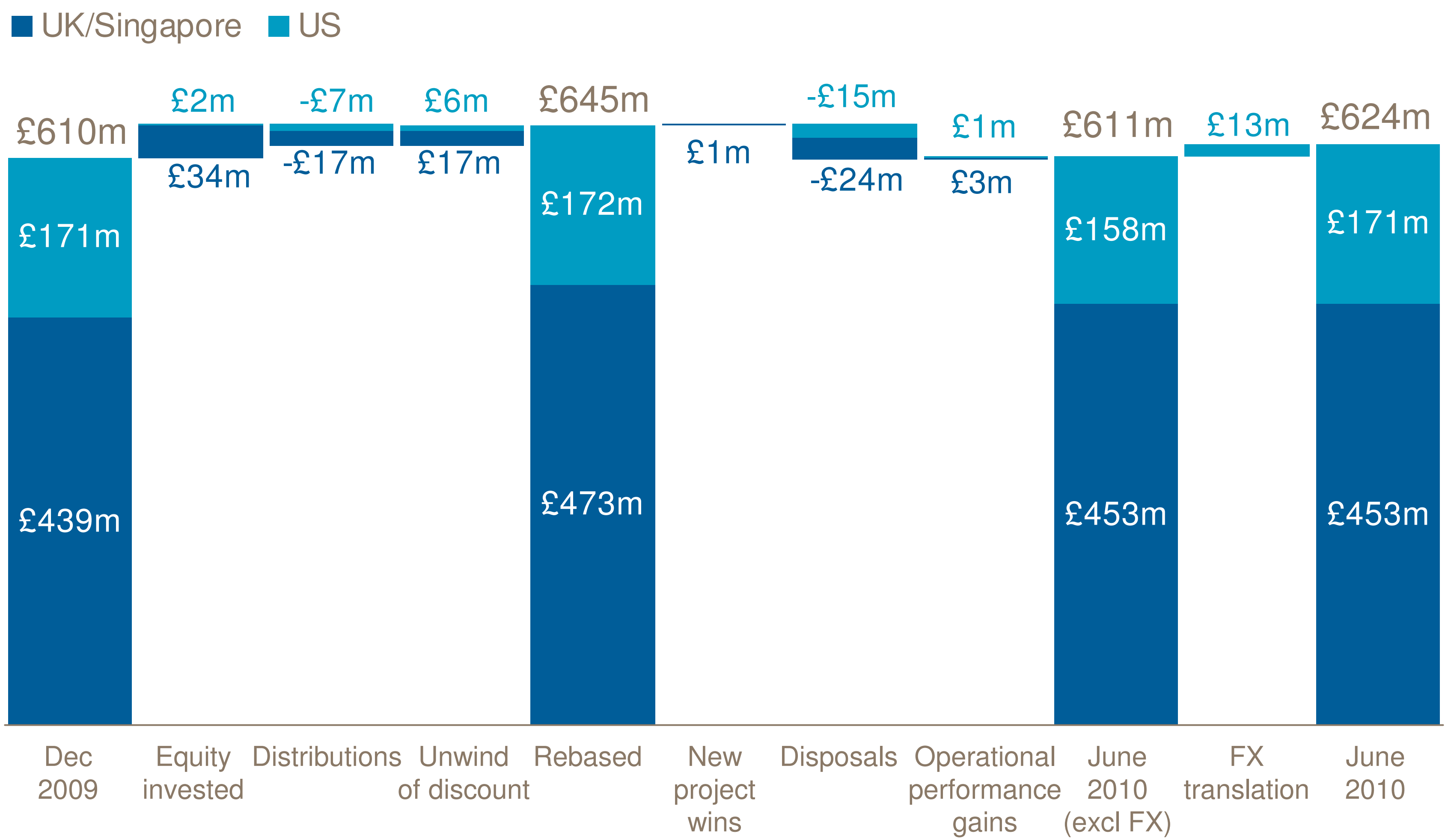
Order book
£4.5bn up 15%
(June 2009: £3.9bn)



Revenue
£735m up 1%
(June 2009: £726m)

BSO= Business services outsourcing
FM = Facilities management

PPP portfolio valuation – June 2010



Infrastructure investments

FY 09	£m	HY 2010 Group	HY 2010 JVs & assoc	HY 2010 Total	HY 2009 Group	HY 2009 JVs & assoc	HY 2009 Total	
30#	PPP UK/Singapore	1	15	16	1	15#	16#	
24	PPP US	9	3	12	11	2	13	
16	Infrastructure	(2)	7	5	(2)	11	9	
(30)	Bidding costs & overheads	(19)	-	(19)	(13)	-	(13)	
40#	**Investments operating profit***	**(11)**	**25**	**14**	**(3)**	**28#**	**25#**	**-44%†**
9	*Subordinated debt interest income*			*9*			*6*	
1	*PPP subsidiaries' net interest*			*-*			*-*	
50#	**Investments pre-tax result**			**23**			**31#**	**-26%**
49#	*Investments post-tax result*			*22*			*28#*	*-21%*

** before exceptional items and amortisation*
 # restated for the adoption of IFRIC 12 Service Concession Arrangements
† 44% reduction at constant currency

Infrastructure investments

- Achieved financial close on
  - Florida Atlantic University student accommodation
  - Blackburn with Darwen and Bolton BSF
  - Coventry Street Lighting (August 2010)
- Appointed preferred bidder on
  - North West Fire & Rescue
  - Thanet offshore high-voltage transmission (“OFTO”) (August 2010)
  - Ealing, Derby City and Oldham BSF
- Disposal of investments in Aberdeen and part of Edinburgh Royal Infirmary for £24m
- Impairment of assets in Barking Power – contracts expire Sept 2010
- Directors’ valuation update as at June 2010 ahead of Dec 2009 despite disposals

Investment income and finance costs

FY 09	£m	HY 2010	HY 2009
9	PPP subordinated debt interest receivable	9	6
14	PPP interest on financial assets	9	6
1	Income on net investment hedges	-	1
8	Other interest receivable	4	4
32	Investment income	**22**	**17**
(13)	PPP interest on bank loans and overdrafts	(9)	(6)
(12)	Preference shares finance cost	(6)	(6)
(7)	Other interest payable	(6)	(3)
(15)	Net finance costs – pension schemes	(11)	(8)
(47)	Finance costs*	**(32)**	**(23)**
(15)	**Net finance costs***	**(10)**	**(6)**

** before exceptional items*

Performance by sector

FY 09	£m	HY 2010	HY 2009
13	Professional services	49	6
207	Construction services	83	71
55	Support services	21	28
40	Infrastructure investments	14	25
(35)	Corporate costs	(16)	(17)
280	**Profit from operations***	**151**	**113**
32	Investment income	22	17
(47)	Finance costs*	(32)	(23)
265	**Pre-tax profit***	**141**	**107**

** before exceptional items and amortisation*

Exceptional items and intangible asset amortisation

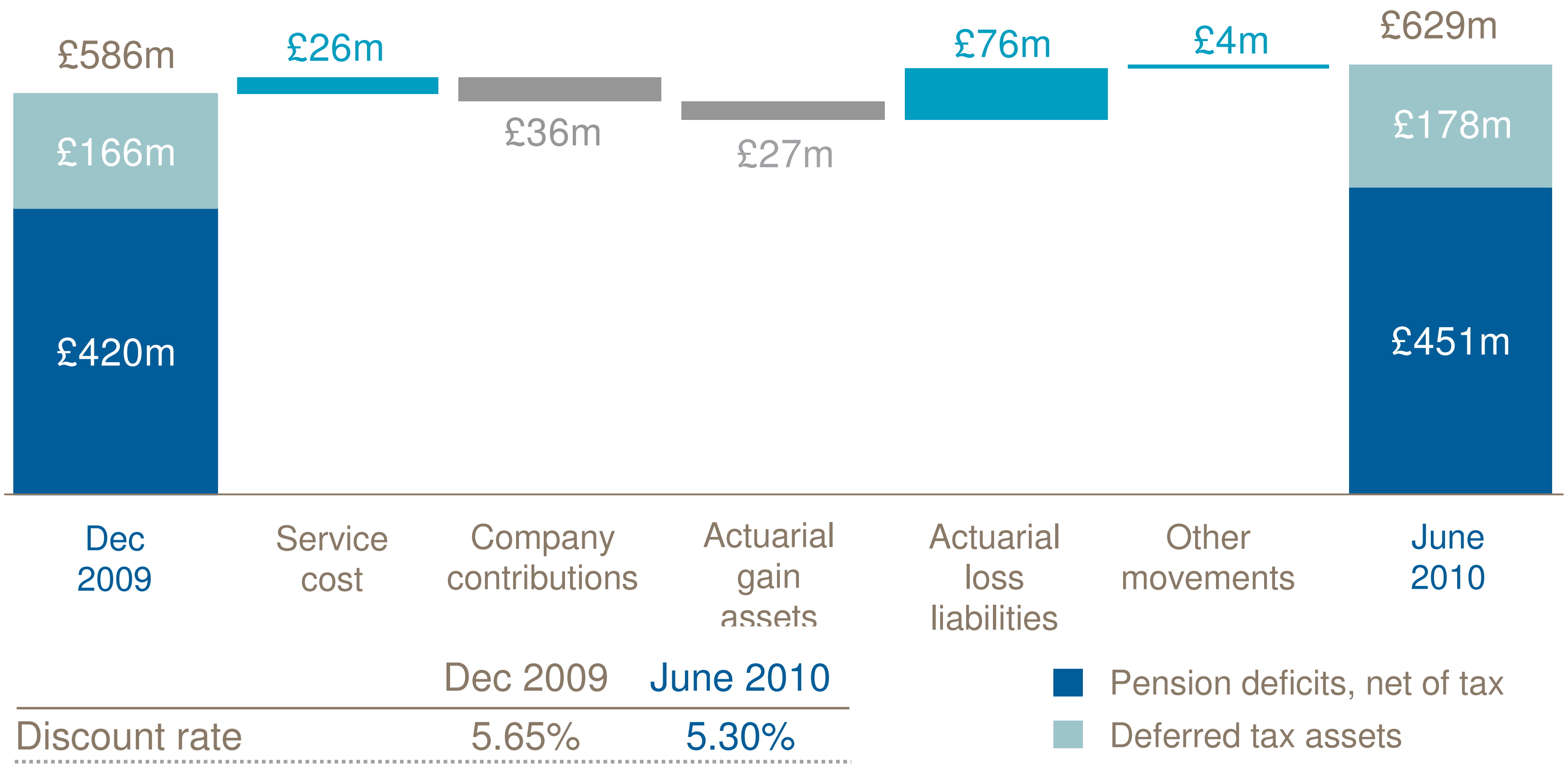
£m	HY 2010 Profit before tax	Tax	Net
Exceptional items:			
Profit on disposal of PPP investments	20	-	20
Asset impairment in Barking Power	(27)	-	(27)
Post acquisition integration, reorganisation & other costs	(11)	3	(8)
	(18)	3	(15)
Amortisation of intangible assets	(42)	14	(28)
	(60)	17	(43)

Cash from operations

£m	H1 2010	H2 2009	H1 2009
Group operating profit*	110	126	73
Depreciation	37	33	36
Exceptional cash items	(11)	(30)	(3)
Other items	(7)	2	2
Pension deficit payments	(16)	(22)	(13)
Working capital (increase)/decrease	(134)	107	(17)
Cash (used in)/from operations	**(21)**	**216**	**78**
Net capital expenditure	(35)	(15)	(37)
	(56)	201	41

** before exceptional items and amortisation*

Pensions – balance sheet movement



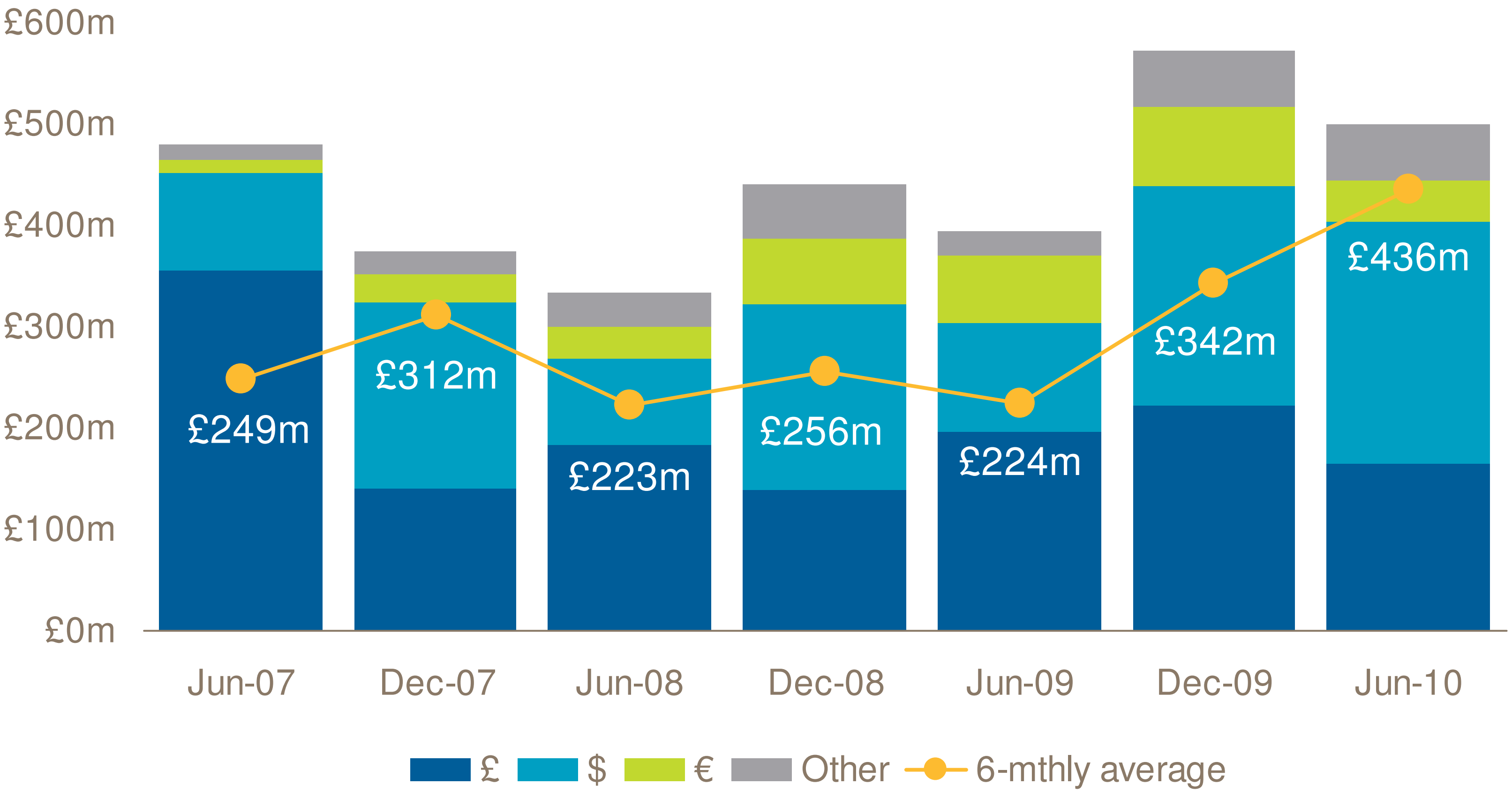
	Dec 2009	June 2010
Discount rate	5.65%	5.30%
Inflation rate	3.50%	3.25%
Real discount rate	2.15%	2.05%

Balance sheet cash movement

£m	HY 2010	HY 2009
Opening net cash†	572	440
Cash (used in)/from operations†	(39)	71
Dividends from JVs and associates	26	27
Capital expenditure and financial investment	(61)	(47)
Acquisitions/disposals (net of net cash acquired)	19	(26)
Dividends, interest and tax paid	(22)	(13)
Exchange adjustments net of hedge closures	8	(55)
Other items	(3)	(3)
Closing net cash†	**500**	**394**
PPP subsidiaries non-recourse net debt	(252)	(190)
Closing net cash	248	204

† treating PPP subsidiaries as joint ventures/associates and eliminating their £18m cash from operations (2009: £7m)

Net cash balances†



† excluding net debt of PPP subsidiaries

Summary of first half 2010

- Overall performance
  - Profit from operations up 34%
  - Pre-tax profit up 32%
- Dividend up 5%
- Average cash £436m
- £14.6bn order book, up 4% from Dec 2009

Balfour Beatty

Ian Tyler

Chief Executive

Agenda

- Infrastructure markets and Balfour Beatty business model
- Update on Parsons Brinckerhoff and opportunities across the Group
- Longer-term direction of the Group

Infrastructure – an attractive, long-term market

- Growth in infrastructure expenditure forecast to exceed GDP growth over next 15 – 20 years
- Infrastructure deficit in many developed economies
- Exciting opportunities in developing economies

Balfour Beatty business model

Parsons Brinckerhoff – a game-changing move

- Acquisition rounded out capabilities across the infrastructure lifecycle
- 14,000 employees, 80 countries
- Strong cultural and strategic alignment with Balfour Beatty
- Performance ahead of plan and growing order book
- Key role as integrator across the infrastructure lifecycle, providing new opportunities for the Group

Opportunities in international infrastructure

Denver Rail

- Preferred bidder on Eagle commuter rail project, Denver:
  - engineering, procurement and construction
  - rolling stock procurement
  - systems integration
  - operations and maintenance
- Good prospects for similar schemes across the US

Opportunities in international infrastructure
Heathrow Airport

- £460 million contract at Heathrow Terminal 2 – T2B
- Enhanced range of capabilities through PB's US resource and expertise

Opportunities in international infrastructure

India roads

- PB has operated in India for a number of years (Metros in Delhi and Mumbai; Delhi airport)
- Balfour Beatty joint venture with GVK to bid for road projects on a build/ operate/transfer basis
- PB provides design and programme management capabilities

Opportunities in international infrastructure

UK power

- Well-positioned to support nuclear new-build programme
- Substantial opportunities in offshore generation and renewable energy
- Appointed preferred bidder to acquire and operate Thanet offshore transmission system (OFTO)

Where we are today

- Capabilities across the infrastructure lifecycle and access to wide range of markets and geographies
- Continued growth in earnings
- Order book increased to £14.6 billion in H1 2010
- H2 order book to include Denver, Heathrow T2B
- Strong balance sheet
- Resilient business model

Growth opportunities

- Significant UK opportunities
- Plus, opportunities in:
  - US
  - South-East Asia
  - emerging economies through PB
- Efficiency programme
- Confident in ability to deliver growth over the medium-term, reflected in dividend policy

Future direction of the Group

- Significant growth in professional services
- Relative exposure to UK construction to fall
- Further growth in US construction
- Strong growth in support services
- Continued value creation from infrastructure investments

Summary

- Creation of powerful position to deliver across the infrastructure lifecycle
- Strong, market-leading and mutually reinforcing businesses
- Uniquely strong collective capability
- Diversification, through markets and geographies, provides resilience and access to more opportunities
- Balance sheet strength and strong record of customer delivery
- Well-placed to take advantage of long-term demand for infrastructure
- Confident about outlook for business

Appendix

Balfour Beatty

Pensions charge

FY 2009	£m	HY 2010	HY 2009
	Defined benefit schemes:		
32	P&L charge – service cost	26	16
(116)	Expected return on assets	(64)	(57)
131	Interest cost on scheme liabilities	75	65
15	Net finance charge	11	8
47	Net pension charge*	37	24
	Defined contribution schemes:		
39	P&L charge & employer funding contributions	37	16
86	**Total charge***	**74**	**40**

** before exceptional items*

Group balance sheet

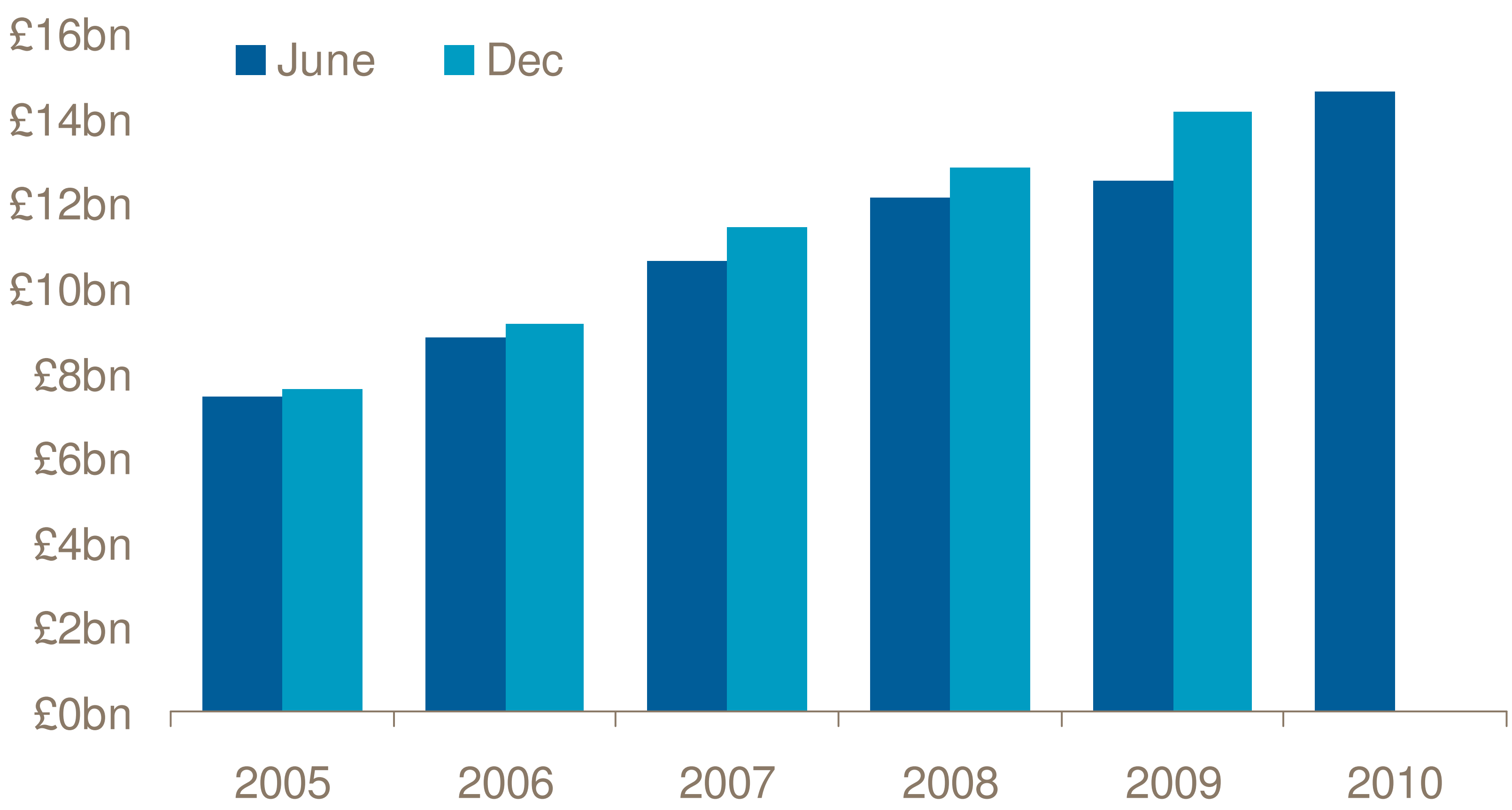
£m	June 10	Dec 09*	June 09
Goodwill and intangible assets	1,462	1,441	1,118
Other non-current assets (excluding PPP & RBO tax)	934	973	897
Current assets (excluding cash)	2,224	1,958	1,775
Current liabilities (excluding borrowings)	(3,157)	(3,028)	(2,794)
Net cash (excluding PPP subsidiaries)	500	572	394
PPP subsidiaries – financial assets	290	260	205
PPP subsidiaries – non-recourse net borrowings	(252)	(248)	(190)
Retirement benefit obligations (net of tax)	(451)	(420)	(427)
Other non-current liabilities (excluding borrowings)	(552)	(513)	(451)
Shareholders' funds	**998**	**995**	**527**

** amended for PB opening balance sheet*

Acquisitions and disposals

£m		
Acquisitions:		
Multibuild Interiors	29 January	2
Deferred consideration		3
		5
Disposals:		
Aberdeen and Edinburgh PPP investments	23 April	(24)
		(19)

Order book



£16bn
£14bn
£12bn
£10bn
£8bn
£6bn
£4bn
£2bn
£0bn
June
Dec
2005
2006
2007
2008
2009
2010

Order book – June 2010