

Balfour Beatty



Balfour Beatty Capital PPP Seminar

29 June 2006



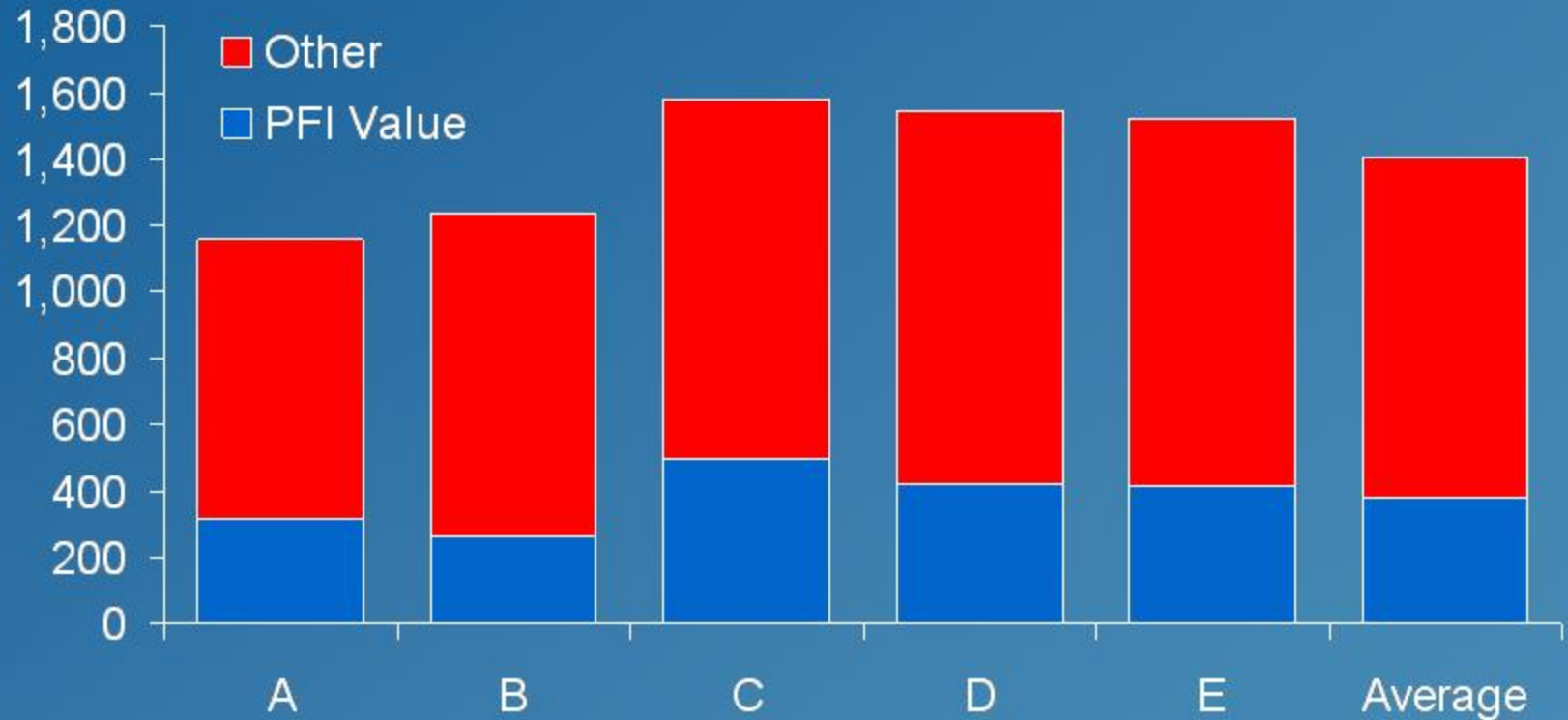
Current Trading

Metronet

Balfour Beatty

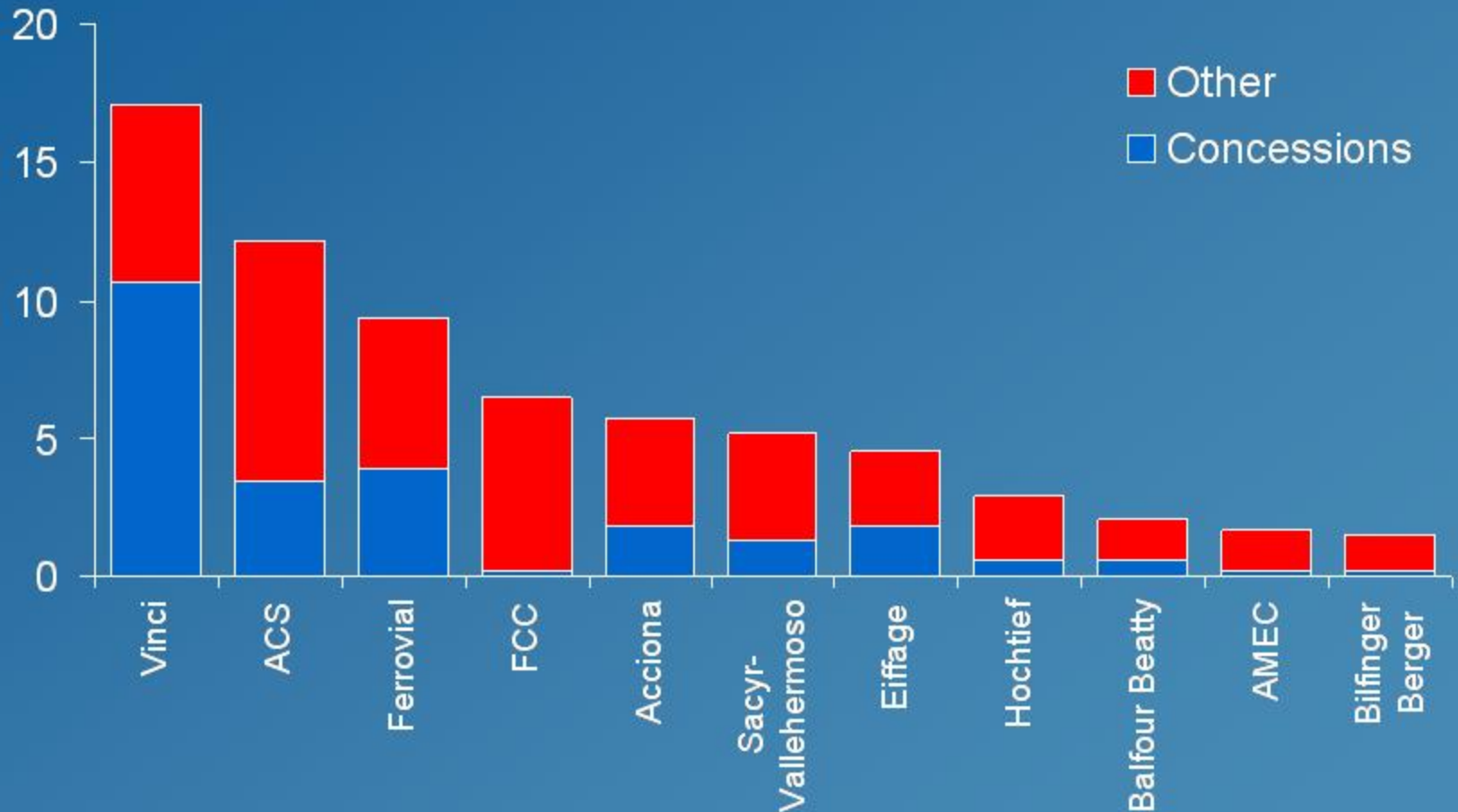
BB PFI portfolio / Group market value

£m



Euro Contractor Concession value / market cap

Value Euro billion



Balfour Beatty

Capital



Balfour Beatty Capital

Ian Rylatt

Balfour Beatty
Capital

Where are we today?

- A market leading investor in UK PFI/PPP

Balfour Beatty credentials

In
chronological
order

<p>March 1996 Connect M1-A1 Limited</p>  <p>£290 million Highway</p>	<p>July 1996 Connect A60 Limited</p>  <p>£42 million Highway</p>	<p>October 1996 Connect A30/35 Limited</p>  <p>£127 million Highway</p>	<p>March 1998 Consort Healthcare (Durham) Ltd</p>  <p>£90 million Hospital</p>	<p>December 2002 Consort Healthcare (Edinburgh Royal Infirmary) Ltd</p>  <p>£220 million Hospital</p>	<p>August 1998 Powerlink/PADco</p>  <p>£40 million Rail</p>	
<p>May 2000 Aberdeen Environmental Services Ltd</p>  <p>£92 million Infrastructure</p>	<p>July 2000 Health Management (UCLH) plc</p>  <p>£282 million Hospital</p>	<p>October 2000 Transform Schools (Stoke) Ltd</p>  <p>£74 million School</p>	<p>May 2003 Connect M77/GSO plc</p>  <p>£167 million Road</p>	<p>April 2003 Metronet Rail BCV Finance plc</p>  <p>£1,783 million Light Rail</p>	<p>April 2003 Metronet Rail SSL Finance plc</p>  <p>£2,108 million Light Rail</p>	<p>June 2003 Transform Schools (Rotherham) Ltd</p>  <p>£113 million Schools</p>
<p>July 2003 Consort Healthcare (Blackburn) Ltd</p>  <p>£116 million Hospital</p>	<p>September 2003 Connect Roads Sunderland Limited</p>  <p>£27 million Road</p>	<p>June 2005 Transform Schools (North Lanarkshire) Ltd</p>  <p>£140 million Schools</p>	<p>July 2005 Transform Schools (Bassetlaw) Ltd</p>  <p>£127 million Schools</p>	<p>December 2005 South Tyneside Street Lighting</p>  <p>£83 million Schools</p>	<p>April 2006 Transform Schools (Birmingham) Ltd</p>  <p>£46 million Schools</p>	<p>June 2006 Consort Healthcare (Birmingham)</p>  <p>£521 million Hospital</p>

Where are we today?

- A market leading investor in UK PFI/PPP
- Established presence in key sectors

Transform
schools



Consort
healthcare



Connect
roads



Infrastructure
projects



Where are we today?

- A market leading investor in UK PFI/PPP
- Established presence in key sectors
- Large and growing team of dedicated professionals



Where are we today?

- A market leading investor in UK PFI/PPP
- Established presence in key sectors
- Large and growing team of dedicated of *industry* professionals
- Enviably operational experience across large multi discipline projects

Transform
schools



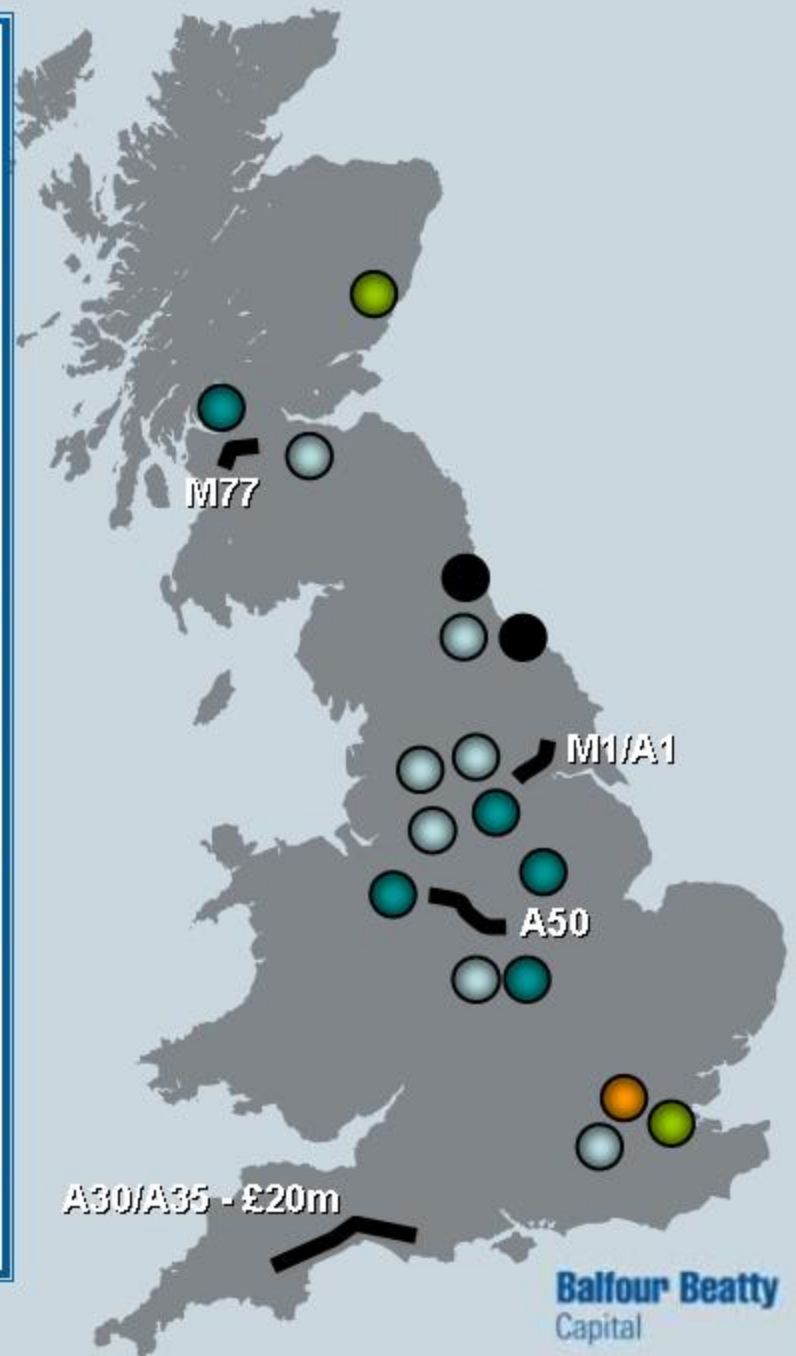
Consort
healthcare



Connect
roads



Infrastructure
projects

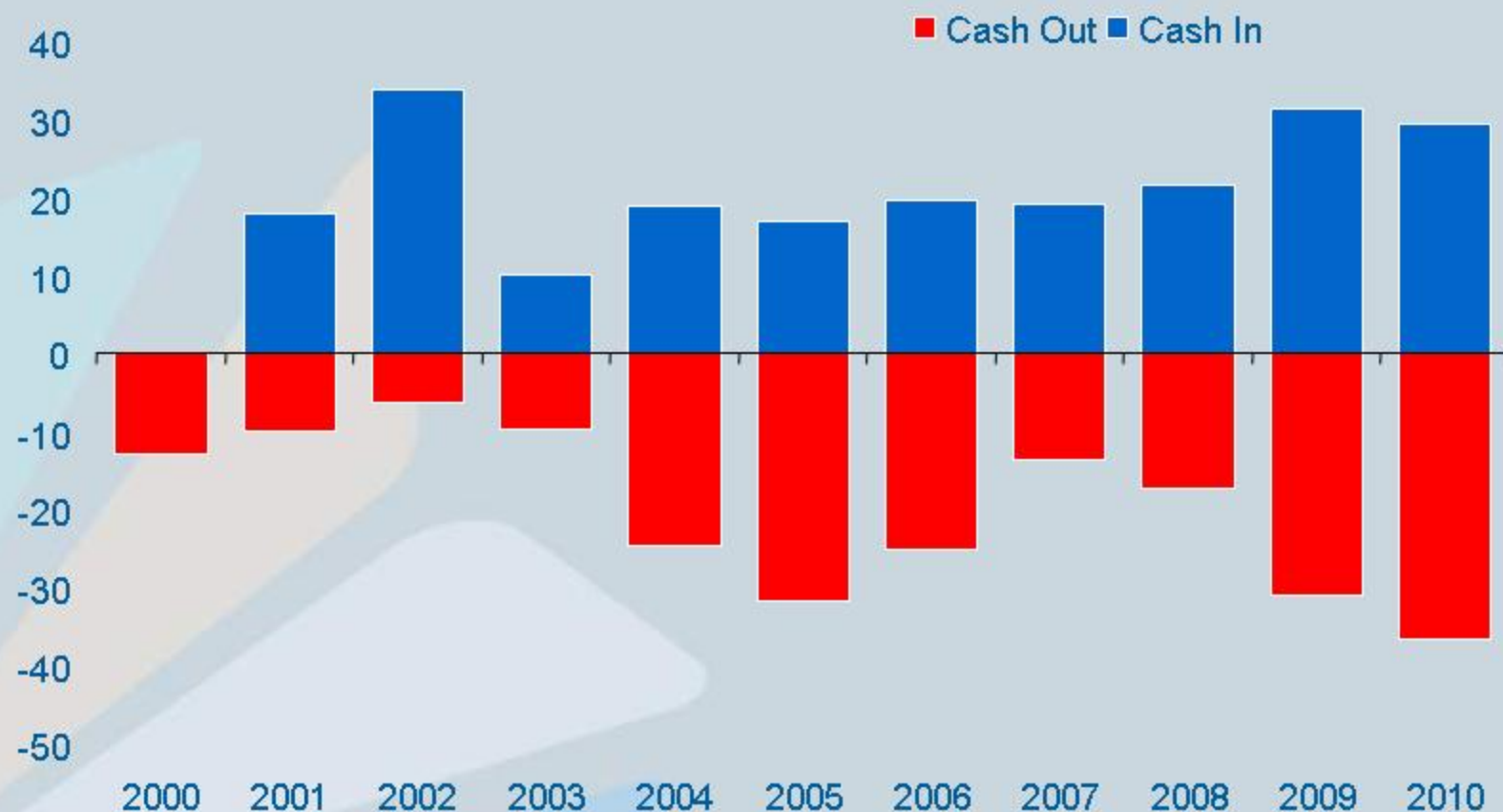


Where are we today?

- A market leading investor in UK PFI/PPP
- Established presence in key sectors
- Large and growing team of dedicated professionals
- Enviably operational experience across large multi discipline projects
- Balance sheet strength to be a long term investor

PFI generation and usage of cash 2000-2010

£m



Our success factors

- Focus
- People and skills
- Innovation
- Complexity
- Group capability
- Long term partner





Consort Healthcare

Mark Holden

Balfour Beatty
Capital



Creating and Caring for essential healthcare facilities

Consort
healthcare

Balfour Beatty's Hospital Projects



Balfour Beatty's Hospital Projects



Edinburgh Royal Infirmary

Edinburgh

- Completed on time on budget
- Fully operational since 2002
- 872 beds
- Hard and soft services
- Performing on budget



Balfour Beatty
Capital

Balfour Beatty's Hospital Projects

University Hospital of North Durham ●

North Durham University Hospital

- Completed on time and on budget
- Operational five years
- 477 Beds
- Hard and soft services
- Performing on budget



Balfour Beatty's Hospital Projects



Queens Park Hospital Blackburn

Queens Park Hospital Blackburn

Construction complete:

- On time
- On budget
- Opening July 2006
- Service delivery commenced
- Hard services only



Balfour Beatty's Hospital Projects



University Hospital Birmingham

University Hospital Birmingham

- Financial close achieved June 2006
- Major acute hospital - 1213 beds
- Mental health facilities - 140 beds



Balfour Beatty's Hospital Projects



University College London Hospital London

University College London Hospital

- Phase 1 - Completed on time on budget
- Phase 1 - Occupied and in operation
- Hard and soft services
- Phase 2 in construction



Balfour Beatty's Hospital Projects



Northern Batch ●



Northern Batch Hospitals

Salford and Tameside

- Significant re-design since preferred bidder
- Department of Health review, investigation complete report awaited
- Progressing to financial close 2007



Balfour Beatty's Hospital Projects



● Pinderfields and Pontefract

Pinderfields and Pontefract

- Financial Close expected end 2006
- Department of health review complete
- Hard and Soft Services



Consort Health Team

- 36 strong
- NHS and health experienced professionals
- Focused on service delivery
- National coverage

Why have we been Successful

Bids:

- Understanding the client needs
- Achieving a design that works and delivers

Operation:

- Full time presence on site
- Responding to change
- Flexibility
- Financially robust (including life cycle costs)

Future hospital bids

- Currently bidding Fife hospital
- Opportunities in Northern Ireland

Project	Value £m	Est. OJEU date
Enniskillen Acute	229	June 2006
Ulster Redvelopment, Belfast	230	July 2006
Omagh Local	130	Oct 2006
RVH Children and Maternity, Belfast	340	Dec 2006
Antrim Batch	250	2007
Craigavon	250	2007
Musgrave Park	220	2007
Daisy Hill	60	2007
Mater Hospital Redevelopment	100	2008
Belfast City Hospital	150	2008
Altnagelvin	100	2008
Primary/community care (similar to LIFT)	300	Phased

Future hospital bids

Project	Value £m	Est. OJEU date
Blackpool Primary Care	25-48	Mar 2006
Hillingdon	248	Q3 2006
Southmead Hospital (North Bristol/South Gloucs)	337	Q3 2006
Royal National Orthopaedic Hospital, Stanmore	144	Q3 2006
Edinburgh Mental Health	80	Q3 2006
Aintree Elective Centre, Liverpool	40	Q4 2006
Plymouth Hosiptals	200	Q4 2006
Leicestershire Mental Health	66	Q4 2006
Taunton Surgical Centre, Musgrave Park	83	Q4 2006
Alder Hey Children's Hospital, Liverpool	270	Q1 2007
Southern General Glasgow	400-520	Q1 2007
Royal Wolverhampton Hospital	400	Q1 2007
North Mersey Mental Health Batch	140	Q2 2007
Northwick Park (North West London)	305	Q2 2007
Papworth Hospital	148	Q2 2007
Watford General Hospital	323	Q2 2007
Royal Liverpool Hospital	500	Q3 2007
Hatfield Hospital (Beds and Herts)	550	Q3 2007
Sandwell and West Birmingham (City Hospital)	450	Q3 2007
Southend Hospital	100	Not known
Leeds Maternity and Children's (St James)	204	Q1 2008
Heatherwood and Wexham Park	200	?
Whipps Cross	?	2008 (build start)



Taking the business forward

Ian Rylatt

Balfour Beatty
Capital

How are we going to take the business forward?

- Significant opportunity to grow
 - UK PFI/PPP

Opportunities going forward

Identified opportunities	£bn
29 hospitals	6.5
16 schools	3.8
12 roads	5.3
2 infrastructure projects	0.7
Total	<hr/> 16.3

Secondary market opportunities

UK market trends

Significant deal flow but changing mix:

Health

- Reassessment of viable scheme size
- New opportunities in Northern Ireland

Schools

- Traditional PFI being replaced by BSF
- Broad diversity of schemes

Roads

- Fewer, but larger projects
- Street lighting

Infrastructure - Non PFI investment opportunities

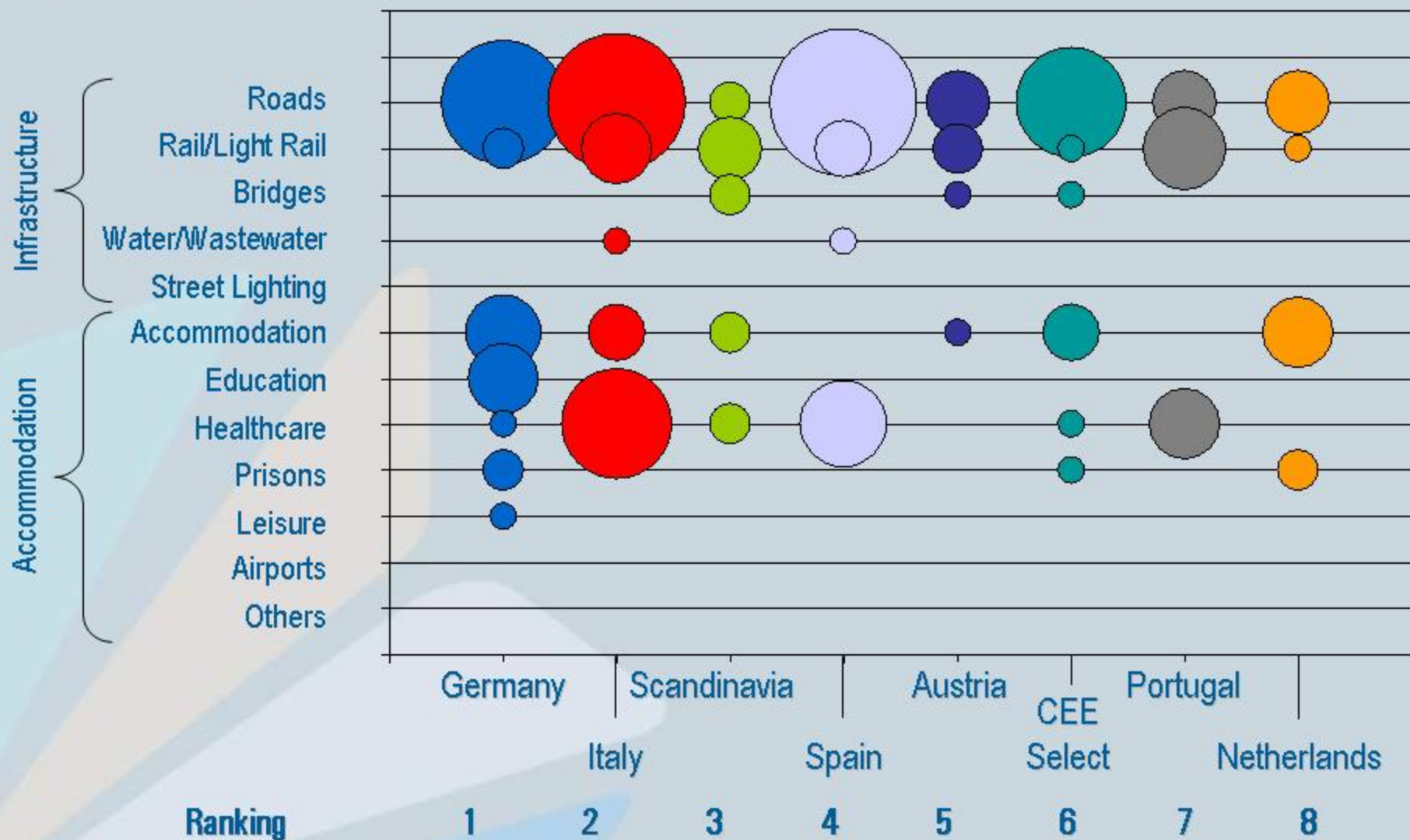
New Sectors - Social housing
- Regeneration



How are we going to take the business forward?

- Significant opportunity to grow
 - UK PFI/PPP
 - Overseas PFI/PPP

Key PPP Options – Rankings



Overseas

- Germany
 - Increasing political support for PFI/PPP
 - Office opened in Munich
 - Identifying local partners

- Hong Kong/Singapore
 - Emerging PFI/PPP market
 - Initial bidding activity in Singapore
 - Establishment of Gammon Capital

How are we going to take the business forward?

- Significant opportunity to grow
 - UK PFI/PPP
 - Overseas PFI/PPP
 - Infrastructure investment

Non PFI infrastructure investment

An attractive investment class

- Roads
- Tunnels
- Bridges
- Railways
- Airports
- Utilities



- Ability to leverage off our existing skills
- Selective approach

Non PFI infrastructure investment

An attractive investment class

- Essential to economic and social activity
- Monopolistic or quasi monopolistic characteristics
- Substitution is difficult



- Ability to leverage off our existing skills
- Selective approach

How are we going to take the business forward?

- Significant opportunity to grow
 - UK PFI/PPP
 - Overseas PFI/PPP
 - Infrastructure investment



Expand the investment base of the business



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Summary

- UK PFI will remain an important activity
- Opportunistic investments in the secondary market
- Supplemented by overseas PFI/PPP investments in overseas markets
- Non PFI is a potential area for growth where the broader Balfour Beatty Group skills are relevant



The US Market and Balfour Beatty

Terence Black

Balfour Beatty
Capital

Balfour Beatty in the USA

Balfour Beatty has been working in the USA since the 1980s and has three US based businesses:

Balfour Beatty Construction, Inc.
Balfour Beatty Rail, Inc.
Heery International



Balfour Beatty Capital has been able to use the presence of these established businesses to make an early entry into the emerging PPP market

Heery Overview

Heery International

- Full-service architecture, interior design, engineering construction management, facility management, and program management firm
- Recognized for the excellence of their services and on-time performance
- Markets include corporate, education, government, healthcare, justice, aviation and sports clients
- 1,000 employees
- Annual revenues of over \$225 million
- 30 offices nationwide
- Headquartered in Atlanta, GA



BBRI Overview

Balfour Beatty Rail, Inc.

- Industry leading rail infrastructure service provider
- Track and signal system installation through maintenance of right-of-way and equipment
- Experience on rail systems including restoration work at the World Trade Center PATH facility and extensive work for CSX, one of the largest rail companies in the U.S.
- \$110 million annually
- 800 employees
- 16 regional offices throughout North America
- Headquartered in Jacksonville, FL



BBCI Overview

Balfour Beatty Construction, Inc.

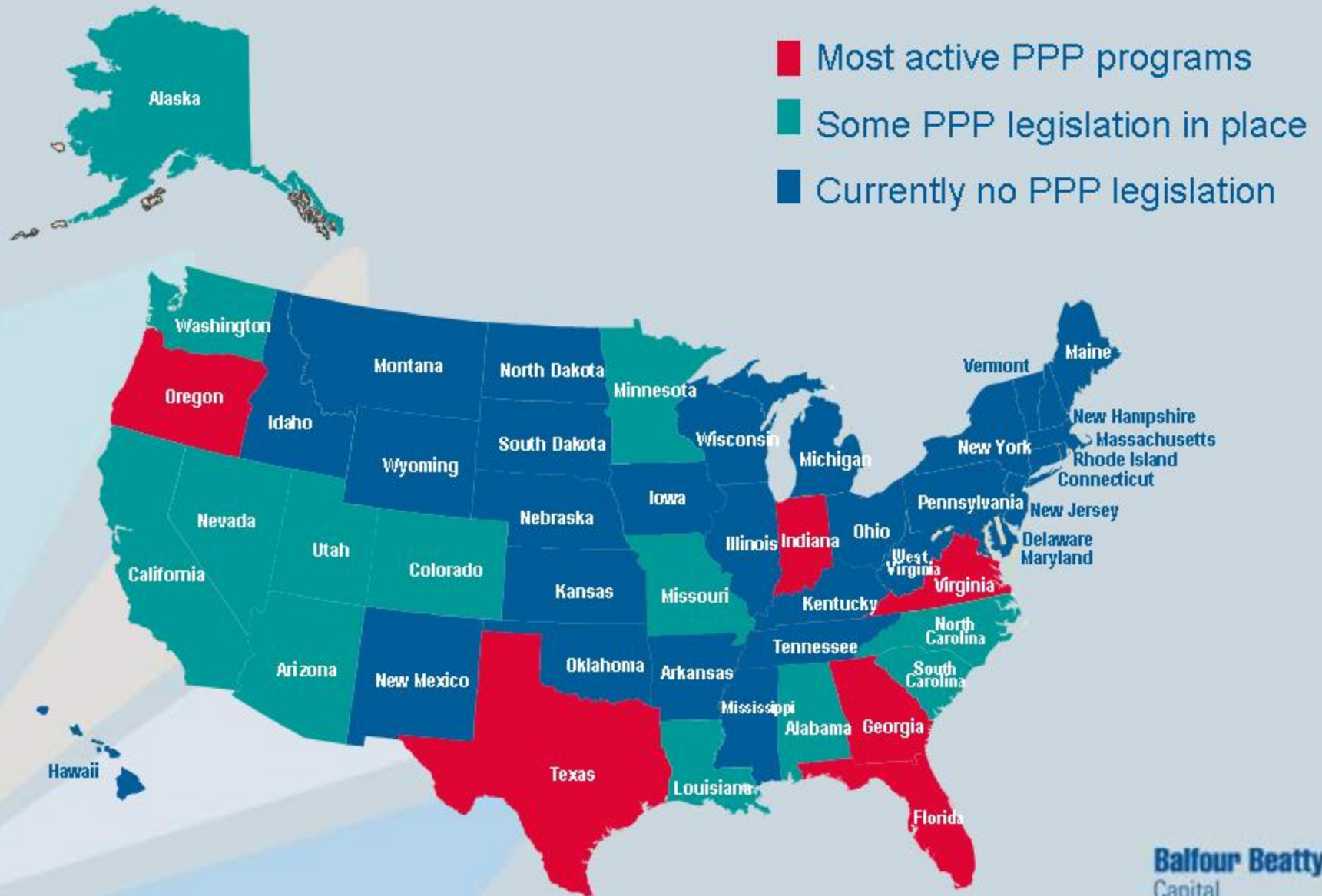
- A heavy highway, bridge and civil works construction contractor
- Over \$500 million average yearly revenue
- Over 30 active projects and nearly \$.3 billion in new contracts awarded in 2005
- Backlog approaching \$1 billion
- Employs over 1,300 people in the U.S.
- State-of-the-art Environmental Management System (EMS)
- Ranked 9th in Engineering News Record "Top 50 in Transportation"
- Headquartered in Atlanta, Georgia



Public Private Partnership Market in the USA

- PPP developing for some time. Recent rapid growth
- PPP expansion because
 - reluctance to raise taxes
 - increasing public sector deficits
 - growing investment gap
- PPP in the US very broadly defined
- Transport lead followed by government buildings, education, healthcare
- About half the States have PPP legislation

The US Market – PPP or P3 Activity



PPP Transportation Projects in US

- Focus on transport – particularly toll roads
- High profile deals
 - \$1.85 billion – Chicago Skyway
 - \$3.85 billion – Indiana Toll Road
- Toll road concessions
 - operate existing roads
 - operate and expand existing roads
 - build and operate new toll roads
- Texas has largest PPP programme - 10 projects

Fundamentals of the Texas Roads Market

TEXAS DEPARTMENT OF TRANSPORTATION

The Texas Transportation Challenge

Texans Have a Problem

The Texas transportation system has not kept pace with the needs of a rapidly increasing population.

Over the past 25 years in Texas ...

- Our population increased **57%**.
- Our use of our roads grew **95%**.
- State road capacity grew **only 8%**.
- Congress transferred **\$7 billion** in Texas gas tax payments to other states.
- The state moved **\$10.8 billion** in transportation funds to other uses.

Over the next 25 years in Texas ...

- Our population will increase an additional **64%**.
- Our use of our roads will increase an additional **214%**.
- State road capacity will grow **only an additional 6%**.
- Congress will transfer an **additional \$7.5 billion** in Texas gas tax payments to other states.
- The state will use an **additional \$13.5 billion** in transportation funds for other pressing needs.



BBCI Texas Highways Division

- Set up in 1995
- Experienced management team
- 40+ road projects – worth \$1.8 billion over 10 years
- Consistently profitable
- SH 130 – the first large design build PPP was recently visited by Governor Rick Perry
- A strong knowledge base for the launch of Balfour Beatty Capital's first concession based bid



SH 130 – progress towards PPP in Texas

- One of the largest highway projects in the history of the US; Austin, Texas
- 15-year contract valued at \$1 billion
- A joint venture between Balfour Beatty Construction Inc., Fluor Corporation and T.J. Lambrecht Co
- More than 90 miles of roadway, bridges and ancillary facilities completed 2008
- Comprehensive Development Agreement, allowing the work of property acquisition, design and construction to be undertaken simultaneously



Balfour Beatty Capital in the US

- Based in Atlanta – co-located with the headquarters of BBCI and Heery
- Team of five professionals, a strong mix of US and UK experience from both the private and public sectors
- Already working with key partners in the development, construction and financial communities to develop a range of projects

Balfour Beatty Capital Current US PPP Projects

- Under active pursuit
 - SH161 – a green field toll road in Dallas Fort Worth, Texas
 - Oakland Airport Connector – a “people mover” link between Oakland Airport and the BART system
- Identified prospect
 - The Louisiana State University Medical Center in Baton Rouge

SH161 Toll Road in Dallas Fort Worth



ConnectTexas

Planned toll way to connect Texas SH183 near the Dallas-Fort Worth International Airport with Interstate 20 in Grand Prairie

Construction cost estimated at \$525 million

A concession of up to 70 years with full toll revenue risk

Responses to RFQ to be submitted August 2006

Oakland Airport Connector

- Connecting the San Francisco Bay Area Rapid Transit (BART) system to the Oakland International Airport (OIA) using an Automated Guideway Transit (AGT) system
- Construction cost estimated at \$325 million
- A concession of up to 35 years with an availability, performance and ridership based payment mechanism
- Qualifying Statements submitted in May. Shortlist to be announced in July

bbm AiRail Transfer



Louisiana State University – Medical Center



- Louisiana State University (LSU) System looking for parties interested in developing a complete and fully operational university-based academic health science center in Baton Rouge, Louisiana
- Balfour Beatty Capital has submitted an expression of interest and qualifications
- A further Request for Proposals is likely to be forthcoming in the Autumn

Balfour Beatty Capital in the US – Future Direction

- Immediate focus will be on SH161 and Oakland Airport Connector
- The US PPP market is evolving rapidly providing opportunities beyond the transportation sector
- Significant opportunity for Balfour Beatty Capital as a PPP developer in green field projects
- Balfour Beatty Capital clearly benefits from, but need not be limited by, the footprint of the existing Balfour Beatty businesses in the US

Balfour Beatty

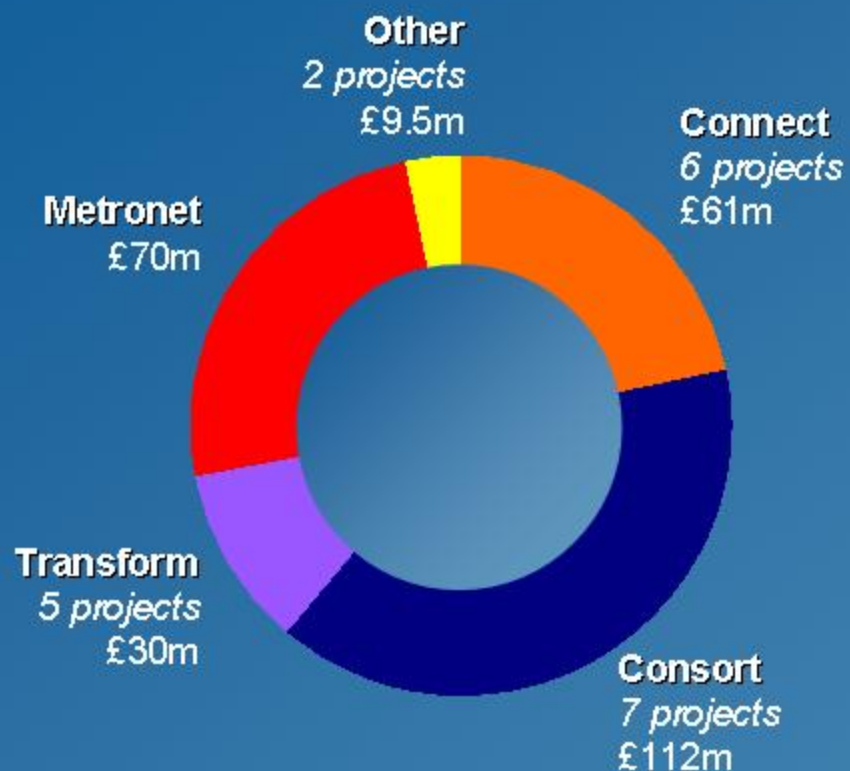
PFI Portfolio Valuation

Anthony Rabin

Why have we done a Director's Valuation?

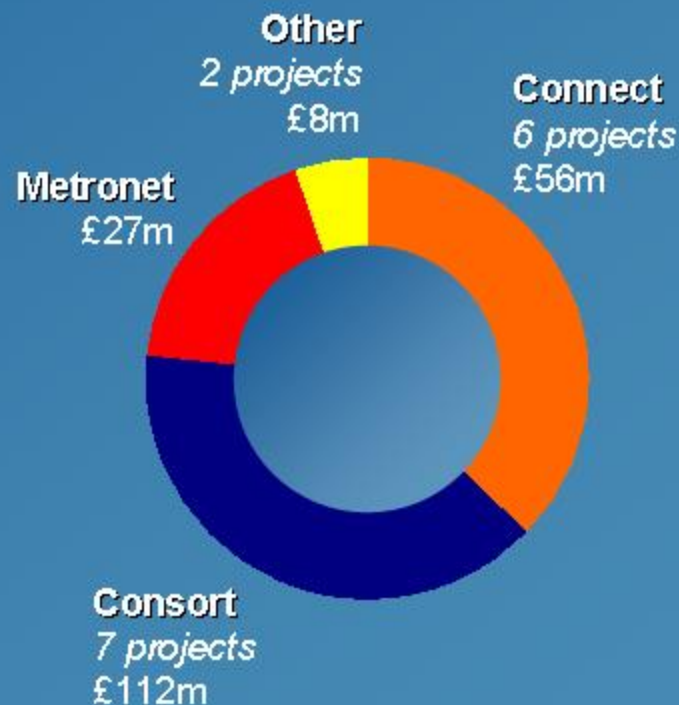
- PFI now a significant part of the group's business
- Historic cost accounting not useful in assessing value
- IFRS hinders that process

Our portfolio



Total equity committed £282.5m

Total cash injected £150m



Valuation Methods Available

Options	
'Value' shown in accounts (based on historical cost)	x
Multiples approach (ie multiples of invested equity)	
Discounted Cash Flow	

Multiples

£m	ERI*	Connect ⁺	M77 ⁺	A50/A30 ⁺
“Net Investment”	2.4	1.6	2.3	(0.7)
Sales Proceeds	32.0	13.5	3.0	10.5
Sale Proceeds/NI	13x	8x	1.3x	!!!!

* 31.4%

+ 15%

Valuation Methods Available

Options	
'Value' shown in accounts (based on historical cost)	x
Multiples approach (ie multiples of invested equity)	x
Discounted Cash Flow	✓

DCF Options

- Single discount rate incorrect
 - inflows subject to project risk
 - outflows virtually certain
 - no reflection of phasing risk
- Composite approach used
 - different discount rates over project life
- Post tax basis in shareholders' hands

Discount Rates

- “Risk free” long term gilt rate used as a base (5%)
- 7% added to reflect risk during construction phase; 3% added to reflect risk during operations phase
- Weighted average discount rate of 8.2%

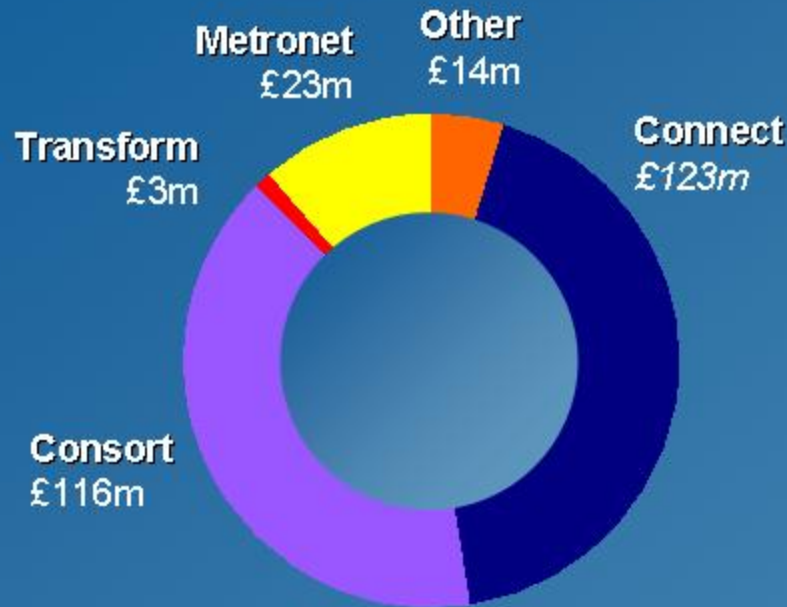
Range:
8.0%
to
12.0%



Projects included at Book Value

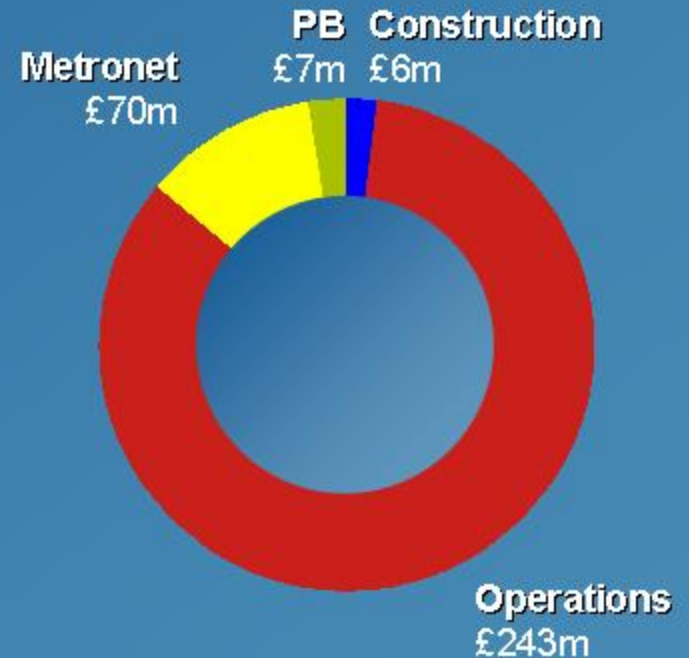
- Metronet – not sufficiently advanced to be able to be viewed in the same light as other projects
- Powerlink – potential recapitalisation and restructuring around increased power demand

Portfolio valuation December 2005

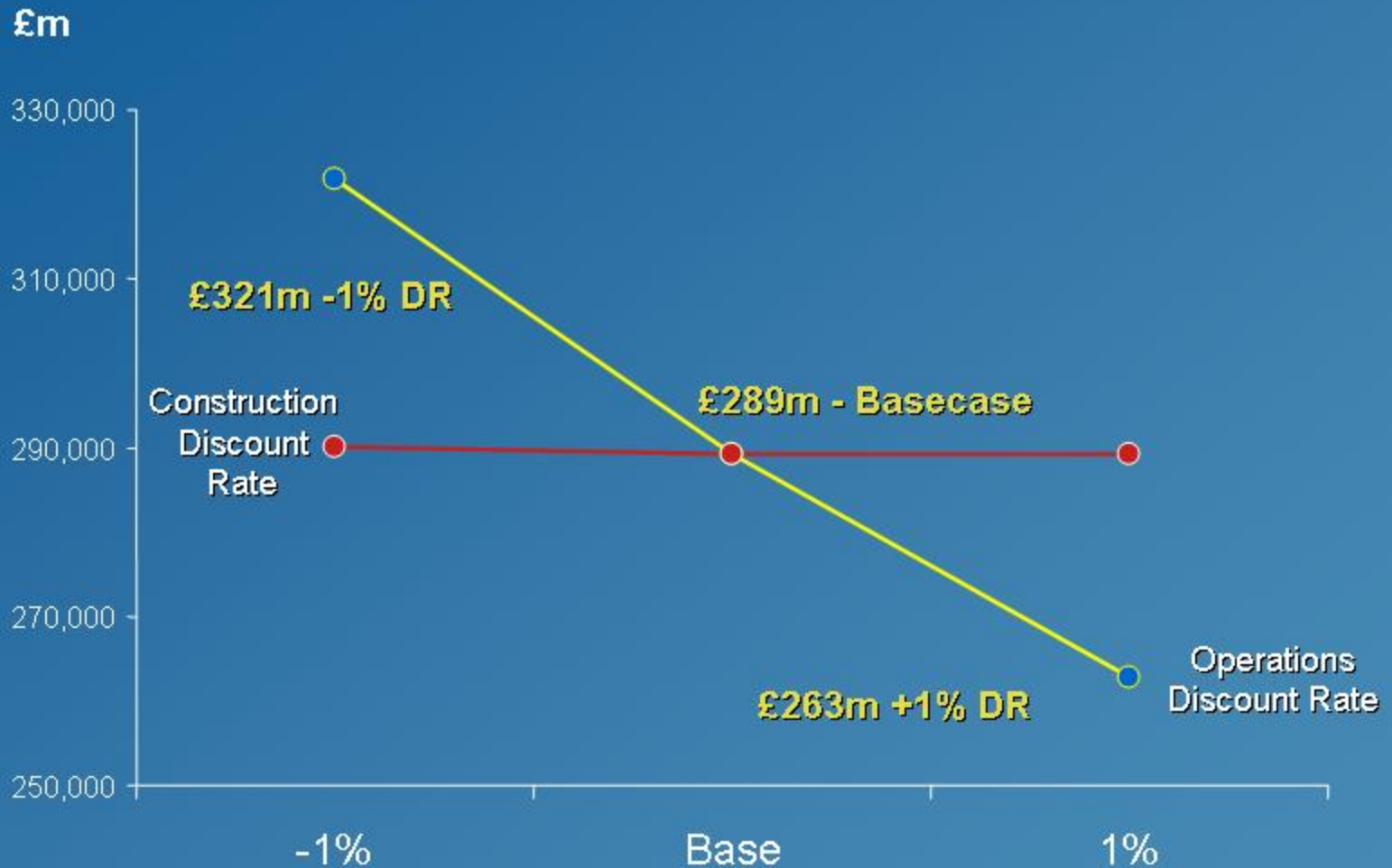


Value by brand £289m

Value by phase £289m



Sensitivity to discount rate changes



Directors' Valuation over time



Open Market Value

- Directors' Valuation not market value
- Differences include:
 - Lower Market Discount Rates
 - Refinancing upside
 - Metronet
 - Goodwill / pipeline

Rates of Return

	Real	Nominal
Connect/ERI - Initial Holding		
Initial Return	12%	15%
After Refinancing	20%	23%
ERI (Purchased) / Connect (Sold)		
Initial Return to Purchaser	6%	9%
After Refinancing / Cost Reductions	9-11%	12-14%
Exit @ 8% Nominal	14-15%	17-18%
Directors' Valuation		
Cashflow from Operations	7%	10%
Corporate Tax	(2%)	(2%)
Net	5%	8%

Equivalence



Possible Market Value

	£m
Directors' Valuation	c300
Reduction in Discount Rate (-1%)	30
Refinancing Benefits	40
Metronet Upside v £33m DV	40
Goodwill / pipeline	100
	<hr/>
	510
	<hr/> <hr/>

Balfour Beatty growth 2006 and beyond

- Short-term

- Inherent in existing business mix

- Medium-term

- New infrastructure investment markets
- UK regional business expansion
- Knowledge-based businesses

- Longer-term

- Expansion of non-UK domestic businesses
 - US
 - Western Europe
 - South-East Asia