Balfour Beatty

News Release

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DIRECTORS' VALUATION OF THE PPP PORTFOLIO

Balfour Beatty, the international infrastructure group, publishes the result of the previously announced review of the Directors' Valuation of the PPP Portfolio, as at June 2014.

Highlights

- Directors' Valuation of the PPP Portfolio increased overall by 46% to £1,051 million
- Valuation methodology changed to reflect: reduced discount rates, improved cash flow assumptions and revised macroeconomic assumptions
- UK portfolio valuation increased by 63% to £801 million at June 2014
- North America portfolio valuation increased by 9% to £250 million at June 2014
- Expect to invest approximately £250 million into the PPP portfolio over the next 5 years

Directors' Valuation of the PPP Portfolio

A review of the PPP Portfolio has resulted in an increase in the total Directors' Valuation to £1,051 million as at June 2014. This represents a 46% increase to the total portfolio valuation as at June 2014, compared with applying the former valuation methodology. A complete summary of the movements in the portfolio valuation is included below.

The Directors' Valuation of the portfolio at December 2013 stood at £766 million. Underlying movements during the first half reduced the Directors' Valuation, under the previous methodology, to £721 million. This reduction was driven by disposals made in the first half more than offsetting underlying increases and the inclusion of Balfour Beatty Infrastructure Partners ("BBIP") for the first time. The application of the updated valuation methodology saw the total portfolio valuation increase to £1,051 million.

The revaluation exercise was undertaken across the UK and North America portfolio of assets. The UK portfolio valuation increased to £801 million at June 2014, compared to £491 million at June 2014 under the previous valuation methodology, representing a 63% increase. The North America portfolio valuation increased to £250 million at June 2014, compared to £230 million under the previous valuation methodology, representing a 9% increase.

Basis for revaluation

The Directors' Valuation is intended to provide an indicator of the value of the PPP investment portfolio. By using a consistent methodology over time, it has served to illustrate movements in the underlying value of the portfolio, rather than seeking to provide an open market valuation.

However disposals of UK assets over the last few years have highlighted the growing difference between the Directors' Valuation and the values achievable for our UK investments in the open market. After reviewing recent disposals, the Board concluded that the existing methodology no longer provided a good indicator of value. We have therefore revised the valuation methodology in light of knowledge from our previous transactions and observed movements in the secondary PPP market, to bring the Directors' Valuation closer to a realistic market valuation.

The review resulted in a number of changes to the methodology used in calculating the Directors' Valuation. The changes to the UK portfolio can be broadly categorised into three areas: reduced discount rates, improved cash flow assumptions and revised macroeconomic assumptions. In North America the nature of our projects is somewhat different to those in the UK, and there are only a limited number of market transactions against which to benchmark valuations. However, as our portfolio has matured we have reviewed the discount rates applied. With these revisions to the methodology, the Directors' Valuation now provides a more meaningful proxy for market value.

PPP portfolio valuation movements

	HY 2014			FY 2013
Summary valuation movements	**UK**	**N.Am**	**Total**	**Total**
Opening valuation	**534**	**232**	**766**	**734**
Cash invested	1	5	6	48
Cash received - distributions	(24)	(13)	(37)	(83)
Cash received - disposals	(97)	-	(97)	(128)
Net cash received	(120)	(8)	(128)	(163)
Unwind of discount on NPV	22	14	36	74
New project wins	2	6	8	4
Disposal gains	44	-	44	45
Inflation, FX & operational (losses) / gains	(1)	(14)	(15)	72
BBIP	10	-	10	-
Closing valuation using former methodology	**491**	**230**	**721**	**766**
Change in discount rates	97	20	**117**	
Projected performance improvements	179	-	**179**	
Change in macroeconomic assumptions	34	-	**34**	
Closing valuation using revised methodology	**801**	**250**	**1,051**	
% change due to revised methodology	63%	9%	46%	

PPP portfolio valuation by sector	**HY 2014**	**FY 2013**
Roads - 13 projects (12)	387	253
Hospitals - 5 projects (5)	216	144
Schools - 8 projects (9)	60	68
Other - 11 projects (11)	128	69
UK total - 37 projects (37)	791	534
US Military Housing - 21 projects (21)	240	228
Hospitals - 2 projects (0)	6	-
Other - 3 projects (3)	4	4
North America total - 26 projects (24)	250	232
BBIP	10	-
Total - 63 projects (61)	**1051**	**766**

[1] Number in parentheses represents number of projects as at December 2013

PPP portfolio valuation by phase	HY 2014	FY 2013
3+ years post construction - 8 projects (10)	109	113
0-3 years post construction 18 projects (16)	588	385
Construction - 13 projects (12)	60	28
Preferred bidder - 3[2] projects (2)	44	12
US Military Housing 21 projects (21)	240	228
BBIP	10	-
Total - 63 projects (61)	**1,051**	**766**

[1] Number in parentheses represents number of projects as at December 2013
[2] Excludes one project at preferred bidder stage in the US, due to the nature of procurement process

CHANGES TO VALUATION METHODOLOGY AND ASSUMPTIONS

UK PPP PORTFOLIO

The review of the UK portfolio concentrated on the largest and more mature assets that account for more than 80% of the UK portfolio value. For each of these projects we reviewed the forecast cash flows, discount rates and macroeconomic assumptions. For the remainder of the portfolio, more limited changes to the valuation have been applied, reflective of the earlier life-cycle stage or differing characteristics of these projects. Our investment in Balfour Beatty Investment Partners has been included for the first time.

Discount rate

We have applied a range of discount rates, between 8.0% and 9.5%, across the portfolio, depending on the risk profile of each investment.

Low risk availability based projects, or demand based projects with proven operational performance and stable demand, are discounted at the lower end of the range.

For projects with higher performance risks, or demonstrable demand risk where the level of demand has yet to be established, a discount rate toward the higher end of the range has been used. In overall terms, the weighted average discount rate applied to the UK portfolio is 8.1%.

A 1% change in the discount rate would change the value of the UK portfolio by approximately £98 million.

Cash flow assumptions

In revising forecast cash flows we have analysed future cost savings, predominantly in terms of lifecycle, insurance and concession management costs and also (where applicable) project specific risk contingencies which need to be incorporated into the cost base at financial close. We have also made conservative changes to cash flow assumptions, based on efficient financing solutions used by potential purchasers.

Macroeconomic assumptions

The key macroeconomic assumptions which drive value in our models are: inflation, interest on cash balances and UK corporation tax rates. The long term inflation assumption has the most material impact, with the portfolio value being positively correlated to changes in inflation. A flat inflation rate of 3.0% has been used across the portfolio. We have aligned our project models across the portfolio to use interest rates and corporation tax rates consistent with the secondary market.

NORTH AMERICA PPP PORTFOLIO

The North America portfolio originated from the military housing business, which still accounts for 96% of the value of North America PPP assets. However, investment outside of this area has grown over the last couple of years to now include three student accommodation projects and two Canadian hospital PPPs. The valuation methodology for the North America military housing investments has been changed to account for the maturity of the projects as they complete their initial development periods, and as the cash flows become more stable.

Discount rate

We have applied a range of discount rates of 9.5% to 12%, depending on the risks associated with the fees and returns. The lower end of the discount rate was applied to contracted fees and returns that are received from the portfolio as the projects now have a proven operational track record as well as those revenues to be received on an availability basis as per our UK portfolio. A higher discount rate was applied to fees for work that has not yet been contracted. In overall terms, the weighted average discount rate applied to the North America portfolio is 11.2%.

A 1% change in the discount rate would change the value of the North America portfolio by approximately £26 million.

BALFOUR BEATTY INFRASTRUCTURE PARTNERS

BBIP continues to grow and invest capital on behalf of its institutional investors. BBIP reached final close for its first fund during July with committed capital of $617.8 million and maintains a dedicated team of 14 people to manage and invest the committed capital. To date BBIP has acquired a portfolio of 10 operational solar energy parks in the UK, and is in the final stages of the completion of the acquisition of the Upper Peninsula Power Company (UPPCO) in Michigan, USA. It is anticipated that the fund will be fully invested within the next 3 years. Balfour Beatty's committed equity investment to the fund is $110 million. Our investment to date of £10.4 million has been included in the Directors' Valuation for the first time.

OUTLOOK

In 2010 we announced our strategy to selectively recycle mature investments through a targeted disposal programme. This strategy has been highly successful delivering £205 million in gains on disposal and generating £612 million in cash from distributions and disposal proceeds, since the beginning of 2011. Over this period we have also invested £161 million back into the portfolio. We expect our active disposal programme to continue to be a significant profit and cash contributor to the business.

At the same time, we outlined our strategy to diversify away from UK PFI into new PPP markets. This has also been a successful strategy with approximately 85% of our expected future bidding activities comprising projects from the pipeline outside of UK PFI. In the UK we are currently preferred bidder on 3 projects and actively pursuing 16 more across five sectors, while in the US we are preferred bidder on 1 project and actively pursuing 12 more across four sectors.

Our current pipeline exceeds £4.5 billion, by value, across our key geographies of the UK and North America. In particular, we continue to look for synergistic opportunities for our construction services and support services businesses, which have historically delivered higher margins when working in conjunction with our investments business. In the US we see a strong pipeline of additional opportunities to earn development fees as well as generating profits through third party real estate management. We are continuing to establish our Investments business in Canada and Australia where again we see a number of opportunities. Looking further into the future, we are also tracking a further £5 billion of early stage opportunities.

Over the next five years we expect this combined pipeline to generate the potential to invest approximately £250 million of equity investment, delivering a sustainable pipeline of investment opportunities and subsequent future disposals. No account of the future value generation from the pipeline is taken into account within the Directors' Valuation.

Commenting, Balfour Beatty Infrastructure Investments Chief Executive Officer, Ian Rylatt, said:

"The substantial increase in the Directors' Valuation is reflective of the market leading portfolio of assets that Balfour Beatty owns. The revaluation ensures that investors have a clear understanding of the real value of assets held within our PPP portfolio. We also believe the valuation is still based upon somewhat conservative assumptions and we will continue to target sales at prices in excess of the Directors' Valuation. The investments business should continue to generate further value, as we continue to invest in new assets."

ENDS

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Notes to editors:

Balfour Beatty (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 USA, 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.