Balfour Beatty

News Release

6 May 2014

BALFOUR BEATTY TRADING UPDATE, 2014 Q1 IMS AND STRATEGIC REVIEW

Balfour Beatty, the international infrastructure group, announces its 2014 Q1 Interim Management Statement, covering the period 1 January to 5 May 2014. This replaces the IMS scheduled for 14 May. The Group has also made a separate announcement today on Board changes.

Summary

- Whilst most parts of the Group are trading in line with management's expectations, we now expect a £30 million shortfall in our UK construction business in 2014.
- Professional Services, Support Services and the Investments division continue to perform well and are in line with management expectations.
- As a result overall Group pre-tax profits for 2014 are expected to be significantly lower than previous expectations, in the range of £145 – £160 million.
- Andrew McNaughton has stepped down as Chief Executive with immediate effect. Steve Marshall, will take over as Executive Chairman until a successor is appointed.
- A strategic review has led the Group to evaluate options for the possible sale of Parsons Brinckerhoff, conditional on providing attractive shareholder value.

Trading Summary

Balfour Beatty, the international infrastructure group, announces today that the Group is expected to deliver significantly lower pre-tax profits in 2014 than management's expectations at the time of the full-year results announcement in March. Overall the Group pre-tax profits for 2014, at current foreign exchange rates, are now expected to be in the range of £145 – £160 million, given current uncertainties in parts of the UK construction business.

The decline in profit expectations is predominantly within the UK construction business, where profits are now expected to be £30 million lower than previously anticipated. Actions taken in 2013 to improve the operational issues in the UK construction business are taking effect, but at a slower pace than expected. There has been significant performance improvement in the regional construction business, but the mechanical and electrical engineering (M&E) and major buildings projects businesses have both experienced significant operational issues.

In March we highlighted that the M&E business had been impacted by adverse market conditions towards the end of 2013. These conditions have continued into 2014 and, taken together with poor operational delivery issues on a number of contracts and low order intake, the business has experienced an extremely challenging first quarter. As a result, our performance expectations for this business in 2014 are significantly lower than previously anticipated. Furthermore, in major building projects we have experienced further cost increases and delays, mainly on specific projects we highlighted in March.

Professional Services, Support Services and the Investments division continue to perform well, and remain in line with management expectations.

Separately, within the Investments division, delays in reaching financial close on certain projects will result in slightly lower than anticipated profits. Given these delays, and a continuing favourable secondary market for infrastructure assets, we are now targeting total PPP profit disposal gains of £50 million in 2014. This is £10 million higher than previously anticipated.

The delays to these projects also impact our Group finance income which, together with the finalisation of the 2014 pension charges, will result in Group net finance costs for 2014 being £5 million higher than previously expected.

Strategic Review

Balfour Beatty also announces that the Board has undertaken a strategic review, to explore ways to simplify the Group structure and create a more focused Group. The review has led to a decision to evaluate options for the possible sale of Parsons Brinckerhoff. A sale will only be pursued if it provides attractive shareholder value.

Since its acquisition by Balfour Beatty in 2009, Parsons Brinckerhoff has continued to be a highly successful business and has grown significantly under Balfour Beatty's ownership. As anticipated at the time of the acquisition, there has been growth in the market towards design and build and Public Private Partnership contracts. However, having professional services and construction capabilities combined within one organisation has not delivered material competitive advantage for the Group. Therefore, we are examining how best to realise the substantial value of the Parsons Brinckerhoff business. We will provide an update in due course.

Steve Marshall, Balfour Beatty Executive Chairman, commented:

"Today's trading update is once again disappointing. The Board is committed to rapidly addressing the root causes. As a result, action is being taken to improve operational delivery in the UK construction business. Our recent strategic review meanwhile has concluded that a sale of Parsons Brinckerhoff could deliver attractive shareholder value and make Balfour Beatty a simpler and more focussed Group going forward."

Operating performance

Order book

Our order book reduced in the first quarter to £12.9 billion compared with £13.4 billion at the end of 2013. Increases to the Professional Services order book have been more than offset by reductions in the Construction Services and the Support Services order books.

The Professional Services order book improved in the first quarter following financial close being reached on the project management contract for Roy Hill, a 55 Mtpa iron ore pit-to-port project in Western Australia's Pilbara region.

The Construction Services order book has decreased in the first quarter, as increases in the Middle East and Hong Kong have been more than offset by reductions in the UK and US. In the UK the order book decline has been particularly impacted by delays to contract awards in our regional and M&E businesses. The regional order book is expected to improve as we go through the year. The drop in the US order book is largely as a result of the timing of recording of new orders, with a corresponding increase in Awarded But Not Contracted (ABNC) work. The Middle East order book has benefitted from significant new contracts, including the expansion of the Dubai Mall and Abu Dhabi airport.

The Support Services order book has declined as expected largely driven as the Asset Management Plan 5 (AMP5) water cycle enters its final year with awards for the next cycle anticipated later in 2014. In May we were awarded approximately £115m of work from Anglian Water as part of its £1.3bn investment during AMP6 – the next water industry regulatory cycle, covering the period to 2020.

Professional Services

Professional Services has performed well, with profitability ahead of last year. The order book has shown an increase during the first quarter, whilst revenues were broadly in line with Q1 2013. A solid performance in US transportation and good performances in the UK and the Middle East were partially offset by a weaker performance in Canada. The actions we have taken in Australia are taking effect, although the market remains challenging.

In April 2014 we announced the outcome of the arbitration process in relation to the previously highlighted longstanding contract dispute.

Construction Services

In April 2013 we announced a profit shortfall in our UK construction business, largely in the regional part of the business. The improvement actions we subsequently put in place contributed to a stronger second half performance. These actions included the appointment of new managing directors for the regional and major projects businesses, and the strengthening of business unit leaders and commercial staff. In addition, bidding and commercial processes have been tightened and these processes are now being rigorously applied. During the first quarter of 2014, the regional business has performed in-line with our expectations. Whilst the regional market remains extremely competitive, the outlook continues to improve. We expect the order book to improve through the year, and profitability remains in line with our previous expectations.

In our M&E business, where we predominantly act as a subcontractor, trading conditions remain extremely challenging, as experienced at the end of 2013. Profitability has also been impacted by poor operational delivery and commercial issues. Order intake has been low so far this year. As a result, our performance expectations for this business in 2014 are significantly lower than previously anticipated. Furthermore, this business relies on major infrastructure and complex buildings for growth, and consequently its outlook remains difficult.

The major buildings projects business has experienced further cost increases and delays, mainly on the specific projects we highlighted in March.

The major infrastructure projects business traded in line with expectations, but continues to be adversely impacted by the shortage of major public projects. The number of projects to be awarded in the short term is expected to be low.

The rail business, largely accounted for by UK rail projects, has performed in line with expectations.

Our US construction business has performed well in the period. The Architectural Billings Index (ABI), a leading indicator for non-residential activity, has been in positive territory for nine out of the last 12 months. However, the negative data from the most recent ABI data highlights that it is too early to predict a broad recovery in the market. Despite this, the work we have done to position the building business in growth regions and sectors resulted in some strong order intake in 2013. As a result we have seen strong revenue growth in the first quarter of 2014. We also saw a good performance from our Infrastructure business.

Outside of the UK and US construction businesses, we also operate in the Middle East, Southeast Asia and Australia. In the Middle East, our M&E joint venture has incurred cost over runs on a small number of building projects, however the market for our construction joint venture continues to improve. In Hong Kong we have seen order book growth, but the joint venture has been impacted by delays to certain existing infrastructure projects. Revenues in our Australian rail business were slightly lower than anticipated, due to delays in new tender opportunities in the Australian transportation sector. Consequently, our profit expectations from these businesses are slightly reduced.

Support Services

Trading has been consistent with expectations in the period. The order book has contracted as expected as we approach the end of the AMP5 cycle.

Revenue grew year on year in the first quarter with good performance on our highways services contracts and rail renewals activities for London Underground. Our Network Rail renewals contract was due to come to an end in Q1 2014, as previously announced, but this has now been extended by a further six months before handing over to new contractors.

Infrastructure Investments

We have continued to expand our successful Investments business, both geographically and in our existing markets. At the start of 2014 we achieved a significant milestone as we secured our first win in Canada, with a preferred bidder appointment on the £196 million BC Children's and BC Women's hospital redevelopment project in Vancouver. This project reached financial close in April 2014 and we are actively pursuing a number of other social and economic infrastructure opportunities. In the UK we added to our leading position in the healthcare PPP market by being appointed preferred bidder for the £47 million NHS Ayrshire and Arran Community Hospital project.

Previously announced preferred bidder positions on the Thanet and Gwynt y Mor offshore transmission ownership (OFTO) assets have been delayed. In addition we have incurred income timing differences on new North American social infrastructure projects. However, given the continuing favourable secondary market for infrastructure assets, we are now targeting total PPP profit disposal gains of £50 million in 2014. This is £10 million higher than previously anticipated.

Discontinued businesses

Discussions in respect of the sale of the German rail business remain ongoing with a number of potential buyers. The business has performed ahead of last year, as losses have reduced, and is in line with our expectations.

Financial position

The Group continues to operate with good balance sheet strength. Average net debt for the three months to the end of March was in line with expectations at £310 million. Our expectation for average net debt for the year has increased by £25 million to £375 million.

ENDS

Conference call

Balfour Beatty will host a conference call for investors and analysts today, Tuesday 6 May, at 8:30 am (UK time). To join the call, please dial +44 (0)20 3427 1909 and quote confirmation code 6273889. 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:

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 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.