Balfour Beatty

News Release

5 November 2013

BALFOUR BEATTY 2013 Q3 IMS

Balfour Beatty, the international infrastructure group, announces its 2013 Q3 Interim Management Statement, covering the period 29 June to 4 November 2013.

Summary

Trading has developed as expected in the third quarter in all of our divisions except Professional Services where we have seen further deterioration in the Australia business in both volume and pricing. This weakness is likely to continue in the fourth quarter; however, at the Group level, we expect to exceed current market expectations for 2013 due to a larger contribution than previously anticipated from the Investments division.

Outside of Australia, Professional Services has performed well, with particular strength in US transportation, Asia and the Middle East. We expect the continued deterioration in Australia since the time of the half-year results to reduce 2013 profits for this division by a further £10 million.

Profitability in Construction Services has improved in the third quarter in line with our expectations.

Support Services is demonstrating resilience in a challenging economic environment and continues to perform in line with our expectations.

In the Investments division our strategy of recycling the capital invested in the investments portfolio has delivered a very favourable outcome in the period with the result that we now expect full-year profits for the division to exceed our expectations at the time of the half-year results by £30 million.

Operating performance

Order book

The order book improved slightly in the third quarter at constant exchange rates. However at actual exchange rates, the adverse impact of the weaker US dollar resulted in a small reduction in the order book to £13.8 billion compared with £13.9 billion at the end of the first half.

Within this, the Professional Services order book has remained stable since the half year. The Construction order book increased overall with a positive contribution from the US construction and UK regional businesses offset by weak order intake in the UK major projects business. The Support Services order book has remained stable in the period.

Professional Services

Professional Services has generally performed well with a stable order book. Revenue in the third quarter was slightly below expectations, as good performances in the US, the Middle East and Africa were more than offset by the downturn in Australia. The further reduction in volumes and deteriorating pricing in Australia are likely to reduce full-year profits for this segment by a further £10 million, leading to a total year-on-year reduction of £34 million compared to the £24 million reduction we expected at the half year. Australia is expected to remain a difficult market in 2014.

We continue to progress the settlement of the longstanding contract dispute we highlighted at the half year. The formal arbitration hearings have commenced this week. We are confident that we will achieve a positive outcome and are still assuming that we will recognise this upside in the current year, although the timing will depend on how the process evolves.

Construction Services

In the UK, we expect the ongoing recovery in the housing market to feed through into increased work for our regional business, in particular our regional civils business. However, we need to remain vigilant about cost escalation and the risk of subcontractor failures as their balance sheets will come under increasing pressure due to increasing working capital requirements as and when their volumes pick up.

In the major projects business, there continues to be an absence of large infrastructure projects. The visible pipeline looks weak, and we see little prospect for change in the next couple of years. We therefore anticipate a continuing shift in our business mix away from major infrastructure and into regional work.

Furthermore, our Engineering Services business relies on major infrastructure and complex buildings for growth and consequently, its outlook remains somewhat subdued. The UK Rail projects business remains difficult and we anticipate that it will be modestly loss-making for the full year.

Our US construction business has performed in line with our expectations in the period. The Architectural Billings Index (ABI), a leading indicator for non-residential activity, has been in positive territory for 13 out of the last 14 months. While it is too early to predict a broad recovery in the market, the work we have been doing to position the building business in growth regions and sectors has enabled us to see some strong order intake. These developments give us confidence that the revenue increase we are seeing in the second half of 2013 will continue into 2014, although margin recovery is expected to be at least 12 months away.

Our construction JVs in the Middle East and in Hong Kong also performed well in the period.

Support Services

Trading has been consistent with expectations in the period. The order book benefited in the quarter from the Herefordshire Council contract announced in July helping to offset the run-off in the utilities order book as we approach the end of the AMP5 cycle.

Revenue grew year on year in the third quarter with a particularly strong performance in the power transmission and local authority businesses.

The division is on track to meet our expectations for the full year.

Infrastructure Investments

The division delivered a good performance and saw a good level of activity on all fronts in the quarter. Student accommodation projects at Aberystwyth University and Edinburgh University in the UK and University of Nevada Reno and Tarleton State in the US reached financial close in the quarter, as did the Northern Group military housing project. Work is ongoing to progress our preferred bidder positions on a number of student accommodation projects, our three OFTO projects and ACC Group III, our final project in the family military housing programme.

Our strategy to recycle the capital invested in the investment portfolio continues, and accordingly, we assess the opportunities in the secondary market for our mature assets on a regular basis. A market-based auction process we have been running for a number of road assets in recent months has reached a very favourable outcome, resulting in the disposal of 75% of our interest in the Carlisle Northern Development Route (CNDR) and 65% in A30/A35 road to Equitix for a consideration totalling £47.5 million. The highways sector remains a core market for the Group, and we have therefore retained strategic interests in CNDR and A30/A35 of 25% and 20%, respectively. The December 2012 Directors' valuation of the disposed elements of these investments was £27.4 million, demonstrating the conservative nature of the Directors' valuation in relation to the older PFI projects in the portfolio.

The proceeds from the transaction exceeded book value, generating a gain of £37.4 million on disposal. As a result, we expect to see full-year profits for the division exceed our expectation by £30 million with the profits from these investment disposals considerably outweighing the shortfall from project delays, such as the Gloucester Waste Project and the Thanet OFTO, and additional bid costs.

Discontinued businesses

Trading performance in Balfour Beatty WorkPlace has been good in the period. We continue to expect that the disposal of the business will be completed by the end of the year, generating proceeds in excess of £150 million.

Our Scandinavian rail business performed in line with our expectations in the period. We are in advanced discussions with a potential buyer for the business and expect this transaction to conclude within the next three months.

Our German rail business performed below expectations in the period. We are in early discussions with a number of potential buyers for the business, but do not expect a conclusion to the process in 2013.

Financial position

Average net debt for the nine months to the end of September was £345 million. Further working capital outflow in UK construction, and the rapid build-up of positive working capital in Support Services on the National Grid contract, partly offset by an inflow in US construction contributed to the increase in net debt in the quarter. We continue to expect year-end net debt in the region of £350 million, or £200 million after taking into account the benefit of the proceeds from the sale of Balfour Beatty WorkPlace.

Update on the pension position

As previously announced we closed our defined benefit scheme to future accrual with effect from 31 August 2013. The estimated saving in future cash contributions over the remainder of the scheme is £200 million. The non-cash accounting impact of the transfer of active members into deferred status was to increase the pension deficit by £50 million. As at the end of September the total post-tax accounting deficit was estimated to be £380 million, or £340 million after accounting for the related deferred compensation assets.

Outlook

While the future prospects of our US building and UK regional construction businesses are improving as expected, some of our markets remain challenging. In particular, we expect the difficulties experienced in professional services in Australia to continue to impact our business in 2014.

Assuming that the progress we have made in Q3 on operational delivery in our UK construction business continues, we expect the performance of the Group's continuing businesses to exceed current market expectations for 2013.

ENDS

Conference call

Balfour Beatty will host a conference call for investors at 8:00 (UK time). To join the call, please dial +44 (0)20 3427 1907 and quote confirmation code 6122790. A recording of the call and its transcript will be posted on our website 24 hours after 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.

Notes to Editors:

1. 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, the US, Southeast Asia and the Middle East. We continue to develop our business in key growth markets in South Africa, Australia, Canada, Brazil and India.

   With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors include transportation (roads, rail and aviation), power and energy, mining, water and social infrastructure such as hospitals and schools.

   Balfour Beatty employs 50,000 people around the world.