Our purpose today

Clarity

Transparency

Understanding
Today’s presentation

Overview

Balfour Beatty in PPP / PFI

Finance and accounting

Summary

Mike Welton

Ian Rylatt

Anthony Rabin

Mike Welton
Balfour Beatty

Building, Building Management & Services
£1,123m sales
£46m operating profit

Investments & Developments
£133m sales
£49m operating profit

Balfour Beatty Capital Projects
Barking Power

Civil & Specialist Engineering & Services
£1,347m sales
£17m operating profit

Rail Engineering & Services
£838m sales
£37m operating profit

2002 results
What is a PFI Project?

A public sector project

... carried out by the private sector

... which raises equity and debt capital to finance

... the construction of an asset

... and thereafter maintain that asset

... in return for receiving a largely fixed income stream

... to fund operating costs, repay debt and

... provide a return on equity
Typical PPP/PFI concession structure

- Shareholders
- Constructor
- Government
- Debt Funders
- Third Parties
- Maintenance Company

Flows:
- Equity
- Construction Costs
- Concession Payments
- Dividends
- Repayments
- Loans
- Overheads & tax
- Maintenance/ Life Cycle Costs
What Government wants from PPP/PFI

Public sector aims
Better public services through
• Risk transfer
• Value for money
• Long term certainty

Private sector contribution
• Challenges inefficiency
• Provides imaginative solutions
• Minimises long-term costs
• Manages risks and delivers quality
PPP/PFI so far

By January 2003

- Approximately 600 projects
- c.£30bn capital value
- c.10-15% of total public service investment
PPP/PFI so far – some examples

• 24 new hospitals
• 48 schools projects (550 schools)
• 14 road projects
• London Underground PPP
Some criticisms of PFI

“Building quality is being compromised”

CABE Report

“Hospitals built under PFI are cheap and nasty”

Unison Report

“PFI leads to cuts in hospital beds and services”

British Medical Journal Report

“In theory, PFI delivers better quality services at less cost but in Health & Education these benefits are in doubt”

ippr Report
PPP/PFI so far — a success story

• 78% on budget (v 27% traditional)

• 76% on time (v 30% traditional)
  
  NAO February 2003

• 81% of customers believe they get value for money

  NAO November 2001
Privately financed projects

Number and capital value of signed projects as at January 2003

Total capital value: c. £30bn

- Transport: £13.0bn
- Law & order: £1.1bn
- Education: £2.4bn
- Defence: £3.2bn
- Health: £4.0bn
- Waste & water: £1.4bn
- Accomodation: £2.5bn
- ICT & Comms. (exc. NHS): £2.2bn

Source: Balfour Beatty study utilising publicly available information
Ian Rylatt
Managing Director, Balfour Beatty Capital Projects Ltd

BALFOUR BEATTY IN PPP / PFI
Agenda

Market summary

Selection criteria

PPP / PFI contribution to Balfour Beatty

Why we are a success

PPP / PFI going forward
Balfour Beatty’s principal markets

LUL / PPP - 2 of 3 concessions
Roads - 4 of 14 roads
Health - 4 of 24 hospitals
Schools - 137 of 550 schools
Others - 4 concessions
Balfour Beatty’s position in the market

16 concessions with construction and services value of £2.4bn

£158m of committed investment

Other contractors’ investment typically of the order of £20-£70 million
**Balfour Beatty’s**

PPP / PFI investments

Total investment £158m

**Preferred bidder in italics**
Balfour Beatty’s selection criteria

Projects over £50m
• Best use of bidding and management resource
• Strength of balance sheet

Complex projects requiring sophisticated service delivery

Attractive volumes of downstream work generated

Satisfactory risk balance
PPP/PFI contribution to Balfour Beatty

PPP / PFI investment profits as source of pre-tax profits (£m)*

<table>
<thead>
<tr>
<th>Year</th>
<th>PPP / PFI</th>
<th>Rest of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>82</td>
<td>8</td>
</tr>
<tr>
<td>2001</td>
<td>102</td>
<td>14</td>
</tr>
<tr>
<td>2002</td>
<td>118</td>
<td>20</td>
</tr>
</tbody>
</table>

* before exceptionals and goodwill amortisation
PPP/PFI contribution to Balfour Beatty

As source of construction and services turnover (£m)

£3.1bn

Includes preferred bidder projects

Metronet  Healthcare  Education  Roads  Power  Other

In concessions owned by others
In BB concessions
## PPP/PFI contribution to Balfour Beatty

As percentage of current order book

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>26% of total £1.9bn</td>
</tr>
<tr>
<td>Engineering</td>
<td>21% of total £2.8bn</td>
</tr>
<tr>
<td>Rail</td>
<td>29% of total £1.6bn</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25% of total £6.3bn</td>
</tr>
</tbody>
</table>
Why is Balfour Beatty successful?

Selectivity and focus

Early entrant – high up the learning curve

90-strong team of experienced specialists

Multi-disciplinary skills offer a unique potential for integration

Group-wide risk identification & management system

Sophisticated approach to whole-life costing
Advantages of PPP/PFI to Balfour Beatty

Tender costs and complexity reduce competition

Packaged procurement plays to our strengths

Greater predictability and security of future workload

Secure, visible, long-term returns

Significant growth opportunities
PPP/PFI going forward

c.£100bn total committed future expenditure on current concessions

c.£12bn to come to market 2003 - 2006
PPP/PFI going forward

Near-term opportunities

• 13 hospitals £2.4bn
• 15 schools schemes £830m
• 3 roads £1.2bn
BIG EXPANSION PLANNED IN PFI PROJECTS

By Nicholas Timmins,
Public Policy Editor

The private finance initiative is to be expanded in scope and scale despite strong trade union opposition to it. Paul Boateng, chief secretary to the Treasury, indicated yesterday.

By 2005 a further £5bn worth of deals are expected to be signed in health, education and housing alone, he told the PFI Congress in London. But Gordon Brown also plans to extend it to urban regeneration, waste recycling, sustainable energy and leisure facilities, and extend its reach in housing.

That is in addition to plans for a dramatic increase in PFI’s use in schools, where the government is planning a joint venture that could see £2bn a year invested in new schools over a decade or more from 2005.

James Stewart, chief executive of FUK, which will be the government partner in the joint venture, said the schools development would make the current redevelopment of family doctors’ surgeries, pharmacies and other primary care premises through the PFI look like “a walk in the park.”

Up to April, 564 PFI deals with a capital value of more than £5bn had been signed. Mr Boateng said the conference, and annual capital investment is expected to rise from £3.7bn last year to more than £5bn this year.

With a deal now done with the unions on an independent arbitration system to settle disputes over two-tier workforces, Mr Boateng claimed “the evidence of what PFI is delivering for the public is winning the political argument.”

He cited a recent National Audit Office report had shown that 75 per cent of PFI construction projects were delivered on time and all of them within public sector budgets. Previously, the NAO found, 73 per cent ran over cost and 70 per cent came in late.

The government also aims to answer criticism of the public sector comparators used to judge whether a PFI deal is good value for money by using a new approach which, Mr Boateng claimed, would ensure that “rigorous analysis of value for money is done at the earliest possible stage.”

He also disclosed that the long-running argument with the Accounting Standards Board on whether PFI should count as being on or off the government’s balance sheet is being resolved.

Including claims for buildings, the government now has £106bn worth of PFI contract liabilities going forward over the next 30 years. But peak annual payments in the next few years will run at between £5bn and £6bn against total government expenditure of £468bn.
Anthony Rabin
Finance Director, Balfour Beatty plc

FINANCE AND ACCOUNTING

Balfour Beatty
Agenda

The bidding process and costs
Financing
Risk
Generic project – cashflows and profits
Accounting
Balfour Beatty – cashflows and profits to date
Balfour Beatty – future cashflows and profits
PPP/PFI bidding process

1. OJEC advertisement
2. Expressions of interest
   - 3 months
   - £10k
   - Form SPV / select advisers
3. ITN 1 of 4
   - 6 months
   - £0.4m
   - Submit outline proposal
4. BAFO 1 of 2
   - 3-6 months
   - £0.7m
   - Select funders / submit fully costed proposal
5. Preferred bidder
   - 6-12 months
   - £0.9m
   - Contract negotiation / mobilisation / financial close

Project delivery
## Bidding costs and recoveries – cash

<table>
<thead>
<tr>
<th></th>
<th>To 1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Est 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross bidding costs and overhead</td>
<td>(22)</td>
<td>(7)</td>
<td>(11)</td>
<td>(13)</td>
<td>(11)</td>
<td>(64)</td>
</tr>
<tr>
<td>Recovery of bid costs from wins</td>
<td>16</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>16</td>
<td>37</td>
</tr>
<tr>
<td>Net bidding costs</td>
<td>(6)</td>
<td>(2)</td>
<td>(11)</td>
<td>(13)</td>
<td>5</td>
<td>(27)</td>
</tr>
</tbody>
</table>
Financing

Highly leveraged

Risks mitigated

Non-recourse

Sources of finance

Liquidity
## Risk assessment and management

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Income</td>
<td>low volatility</td>
</tr>
<tr>
<td>Capital costs</td>
<td>fixed price</td>
</tr>
<tr>
<td>Operating costs</td>
<td>largely fixed</td>
</tr>
<tr>
<td>Financing costs</td>
<td>hedged</td>
</tr>
<tr>
<td>Inflation</td>
<td>income RPI formula</td>
</tr>
</tbody>
</table>

**Highly predictable profits and cash**
Generic £150m project cashflows

Yearly (£m nominal)

IRR: 14-18%
(real post tax)
Some accounting issues

UITF 34

Fixed asset or contract debtor
- Balance of risk
- Operating profit v pre-tax profit

Revenue recognition

Interest during construction
### Balfour Beatty’s PPP/PFI cashflows

<table>
<thead>
<tr>
<th>£m</th>
<th>To 1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>(4)</td>
<td>(2)</td>
<td>-</td>
<td>-</td>
<td>(6)</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>(22)</td>
<td>(11)</td>
<td>(9)</td>
<td>(7)</td>
<td>(49)</td>
</tr>
<tr>
<td><strong>Gross investment in concessions</strong></td>
<td>(26)</td>
<td>(13)</td>
<td>(9)</td>
<td>(7)</td>
<td>(55)</td>
</tr>
<tr>
<td>Subordinated debt principal repaid</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Net investment in concessions</strong></td>
<td>(26)</td>
<td>(13)</td>
<td>(8)</td>
<td>(5)</td>
<td>(52)</td>
</tr>
<tr>
<td>Subordinated debt interest received</td>
<td></td>
<td></td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Upstream loans</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total cash received from concessions</strong></td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>32</td>
<td>49</td>
</tr>
<tr>
<td><strong>Net cashflow (to)/from concessions</strong></td>
<td>(26)</td>
<td>(13)</td>
<td>9</td>
<td>27</td>
<td>(3)</td>
</tr>
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</table>
## Balfour Beatty’s PPP/PFI profits

<table>
<thead>
<tr>
<th></th>
<th>To 1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit and loss account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>53</td>
<td>41</td>
<td>69</td>
<td>80</td>
</tr>
<tr>
<td>Operating profit</td>
<td>22</td>
<td>25</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Interest</td>
<td>(18)</td>
<td>(22)</td>
<td>(25)</td>
<td>(24)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>4</td>
<td>3</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>Taxation</td>
<td>(1)</td>
<td>(1)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>Profit after taxation</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td><strong>Subordinated debt interest receivable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total pre-tax profit to Balfour Beatty</strong></td>
<td>4</td>
<td>8</td>
<td>14</td>
<td>20</td>
</tr>
</tbody>
</table>
BB’s share of existing concessions

Annual (£m)

Cumulative (£m)


-20 0 10 20 30 40 50 60 70 80 90 100 110 120

Annual cashflow  Annual PAT + sub debt  Cumulative PAT + sub debt  Cumulative cashflow

Balfour Beatty  PPP / PFI Seminar
Mike Welton
Chief Executive, Balfour Beatty plc

SUMMARY
A recipe for continuing success

Selectivity and focus

Competition restricted in chosen market sectors

Specialist experienced PFI team

Integration of Group skills and resources

Flagship projects now operational

Continuing innovation
Summary

Successful and strong competitor in an attractive and growing market

Increasingly important part of Balfour Beatty business mix

Clear focus on target markets and projects

Excellent strategic fit with Balfour Beatty skills and range of operating capabilities

Increasingly profitable and cash-generative business for next 25-30 years
PPP/PFI Seminar
London, June 2003
Appendices
<table>
<thead>
<tr>
<th>Concession</th>
<th>Project</th>
<th>Total debt &amp; equity provided</th>
<th>Shareholding</th>
<th>Date awarded</th>
<th>Duration - years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure - transport</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yorkshire Link</td>
<td>A1/M1 30km DBFO road</td>
<td>£290m</td>
<td>50%</td>
<td>1996</td>
<td>30</td>
</tr>
<tr>
<td>Connect Roads</td>
<td>A30/A35 102km DBFO road</td>
<td>£127m</td>
<td>68%</td>
<td>1996</td>
<td>30</td>
</tr>
<tr>
<td>Connect Roads</td>
<td>A50 57km DBFO road</td>
<td>£42m</td>
<td>68%</td>
<td>1996</td>
<td>30</td>
</tr>
<tr>
<td>Connect Roads</td>
<td>M77 DBFO road</td>
<td>£167m</td>
<td>67%</td>
<td>2003</td>
<td>32</td>
</tr>
<tr>
<td>Metronet BCV</td>
<td>London Underground</td>
<td>£1,783m</td>
<td>20%</td>
<td>2003</td>
<td>30</td>
</tr>
<tr>
<td>Metronet SSL</td>
<td>London Underground</td>
<td>£2,108m</td>
<td>20%</td>
<td>2003</td>
<td>30</td>
</tr>
</tbody>
</table>
### Summary of BBCPL PPP/PFI projects that have reached financial close

<table>
<thead>
<tr>
<th>Concession</th>
<th>Project</th>
<th>Total debt &amp; equity provided</th>
<th>Shareholding</th>
<th>Date awarded</th>
<th>Duration - years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure – process</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dundee Energy Recycling</td>
<td>8MW waste to energy plant</td>
<td>£44m</td>
<td>20%</td>
<td>1997</td>
<td>20</td>
</tr>
<tr>
<td>Powerlink/PADCo</td>
<td>London Underground power system</td>
<td>£184m</td>
<td>10/25%</td>
<td>1998</td>
<td>30</td>
</tr>
<tr>
<td>Aberdeen Environmental Services</td>
<td>Wastewater/sewage treatment plant</td>
<td>£92m</td>
<td>45%</td>
<td>2000</td>
<td>30</td>
</tr>
</tbody>
</table>
### Summary of BBCPL PPP/PFI projects that have reached financial close

<table>
<thead>
<tr>
<th>Concession</th>
<th>Project</th>
<th>Total debt &amp; equity provided</th>
<th>Shareholding</th>
<th>Date awarded</th>
<th>Duration - years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accommodation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edinburgh Royal Infirmary</td>
<td>Teaching hospital and medical school</td>
<td>£220m</td>
<td>42.5%</td>
<td>1998</td>
<td>30</td>
</tr>
<tr>
<td>North Durham Hospital</td>
<td>District general hospital</td>
<td>£90m</td>
<td>50%</td>
<td>1998</td>
<td>30</td>
</tr>
<tr>
<td>University College London Hospital</td>
<td>Teaching hospital</td>
<td>£282m</td>
<td>33.3%</td>
<td>2000</td>
<td>40</td>
</tr>
<tr>
<td>Transform (Stoke)</td>
<td>Grouped schools project</td>
<td>£74m</td>
<td>50%</td>
<td>2000</td>
<td>25</td>
</tr>
<tr>
<td>Transform (Rotherham)</td>
<td>Grouped schools project</td>
<td>£113m</td>
<td>50%</td>
<td>2003</td>
<td>31</td>
</tr>
</tbody>
</table>
As of June 2003, BBCPL has a further two PPP/PFI schemes at preferred bidder stage

<table>
<thead>
<tr>
<th>Concession</th>
<th>Project</th>
<th>Total debt &amp; equity provided</th>
<th>Shareholding</th>
<th>Expected closure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunderland</td>
<td>Street lighting</td>
<td>£27m</td>
<td>50%</td>
<td>2003</td>
</tr>
<tr>
<td>Blackburn Hospital</td>
<td>District general hospital</td>
<td>£116m</td>
<td>50%</td>
<td>2003</td>
</tr>
</tbody>
</table>
Generic project – profit & cashflow

Annual (£m)
- Cumulative (£m)

Annual PAT + sub debt
Cumulative PAT + sub debt
Cumulative cashflow

Annual cashflow

Balfour Beatty PPP / PFI Seminar
Generic project – profit & cashflow

- Annual cashflow
- Annual PAT + sub debt
- Cumulative PAT + sub debt
- Cumulative cashflow