

PPP/PFI Seminar

London, June 2003

Balfour Beatty



Mike Welton

Chief Executive, Balfour Beatty plc

OVERVIEW

Balfour Beatty

Our purpose today

Clarity

Transparency

Understanding

Today's presentation

Overview

Mike Welton

Balfour Beatty in PPP / PFI

Ian Rylatt

Finance and accounting

Anthony Rabin

Summary

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

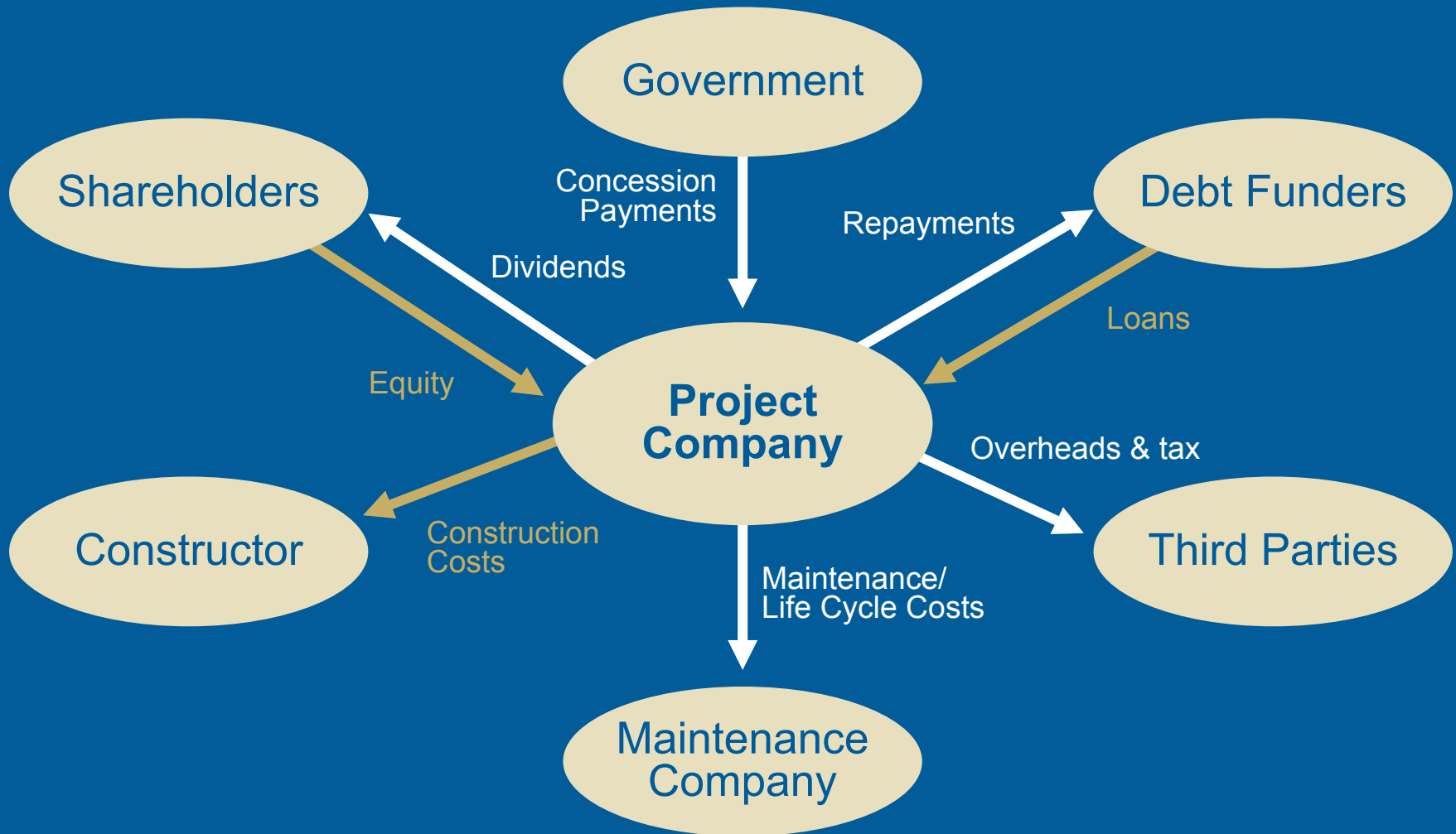
... and thereafter maintain that asset

... 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



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”

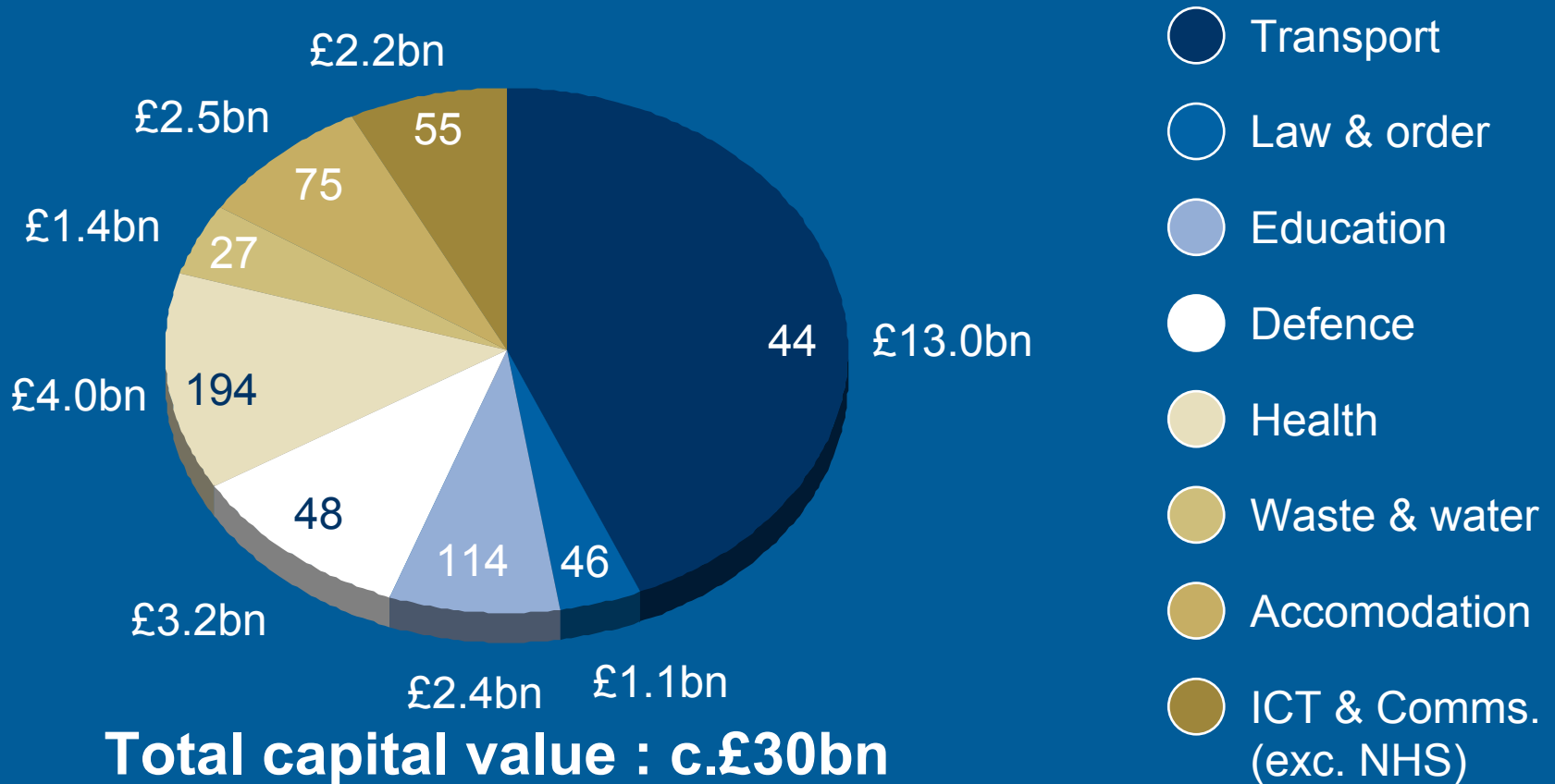
ippr Report

PPP/PFI so far – a success story

- 78% on budget (v 27% traditional)
NAO February 2003
- 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



Source: Balfour Beatty study utilising publicly available information

Ian Rylatt

Managing Director, Balfour Beatty Capital Projects Ltd

BALFOUR BEATTY IN PPP / PFI

Balfour Beatty

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

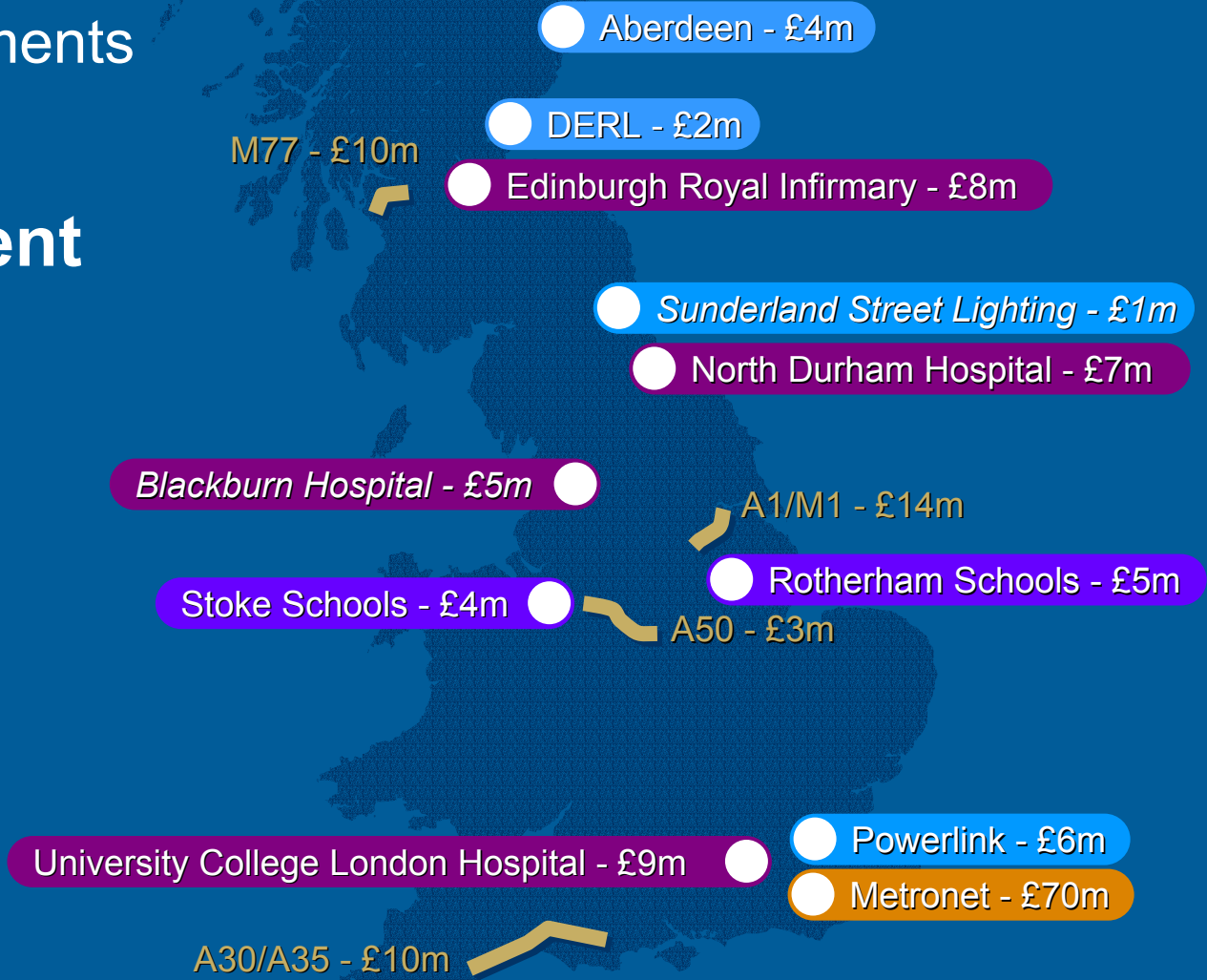
£158m of committed investment

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

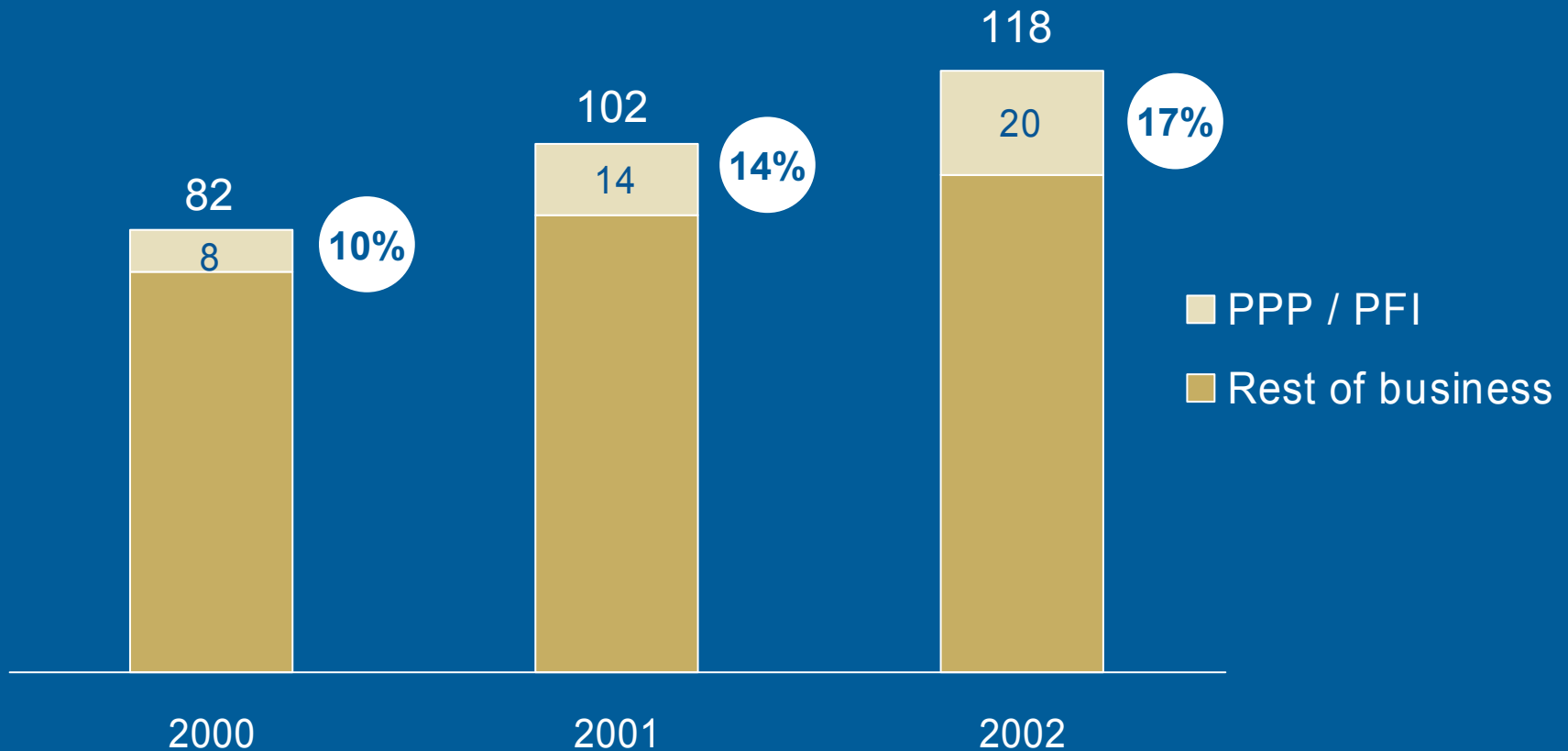
Complex projects requiring sophisticated service delivery

Attractive volumes of downstream work generated

Satisfactory risk balance

PPP/PFI contribution to Balfour Beatty

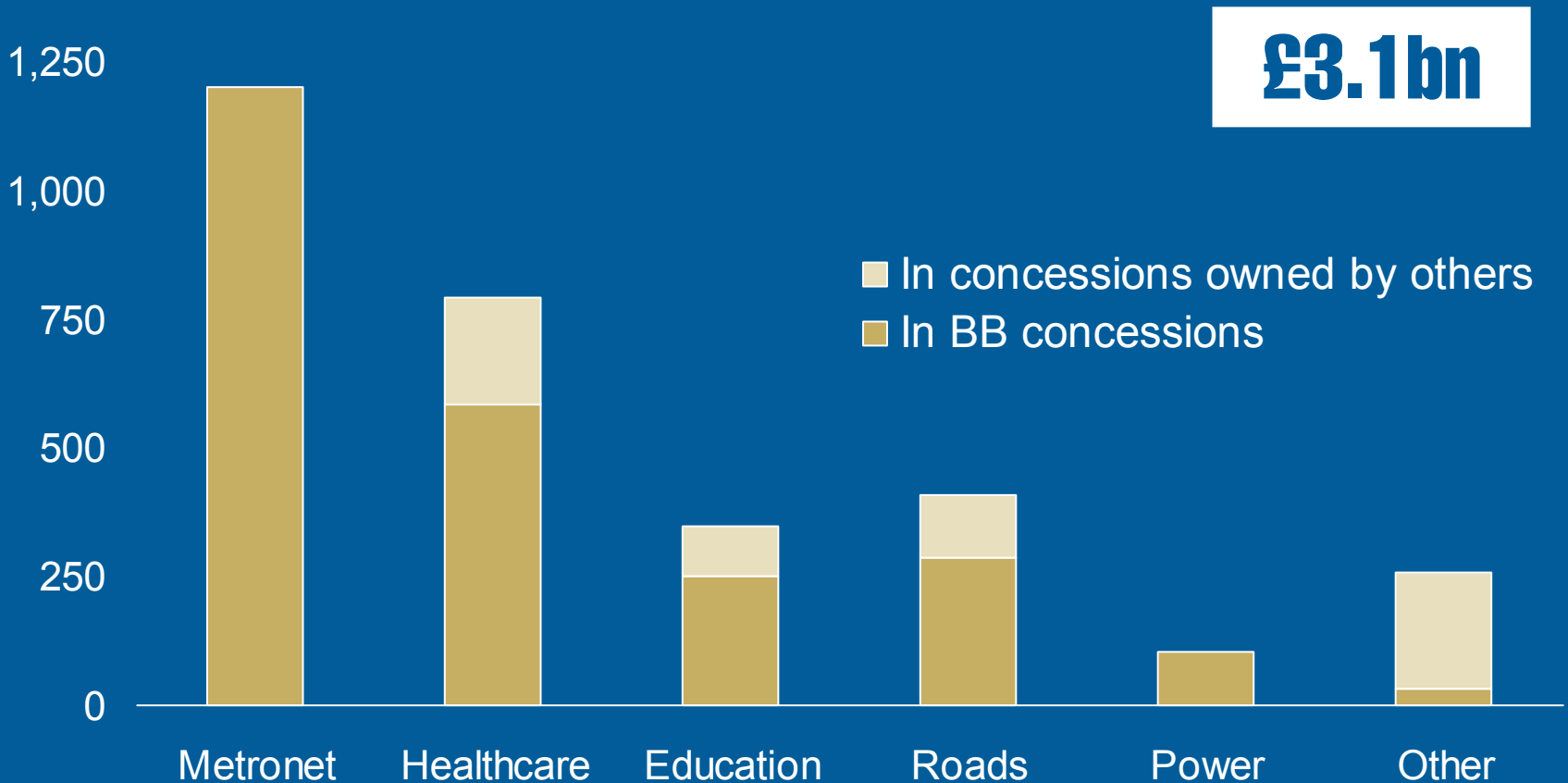
PPP / PFI investment profits as source of pre-tax profits (£m)*



* before exceptionals and goodwill amortisation

PPP/PFI contribution to Balfour Beatty

As source of construction and services turnover (£m)



Includes preferred bidder projects

PPP/PFI contribution to Balfour Beatty

As percentage of current order book

Building 26% of total £1.9bn

Engineering 21% of total £2.8bn

Rail 29% of total £1.6bn

Total 25% of total £6.3bn

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

Paul Boateng speech 10/6/03

FINANCIAL TIMES WEDNESDAY JUNE 11 2003

PRIVATE FINANCE INITIATIVE

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 £9bn 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 scale 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 PUK, 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 £35bn had been signed. Mr Boateng told the confer-

ence, 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 said 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 the London Underground, which alone accounts for £16bn of PFI investment, 57 per cent of all

PFI investments by capital value are now counted on the balance sheet, the minister said.

Including maintenance costs for buildings, the government now has £100bn 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 £450bn.

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

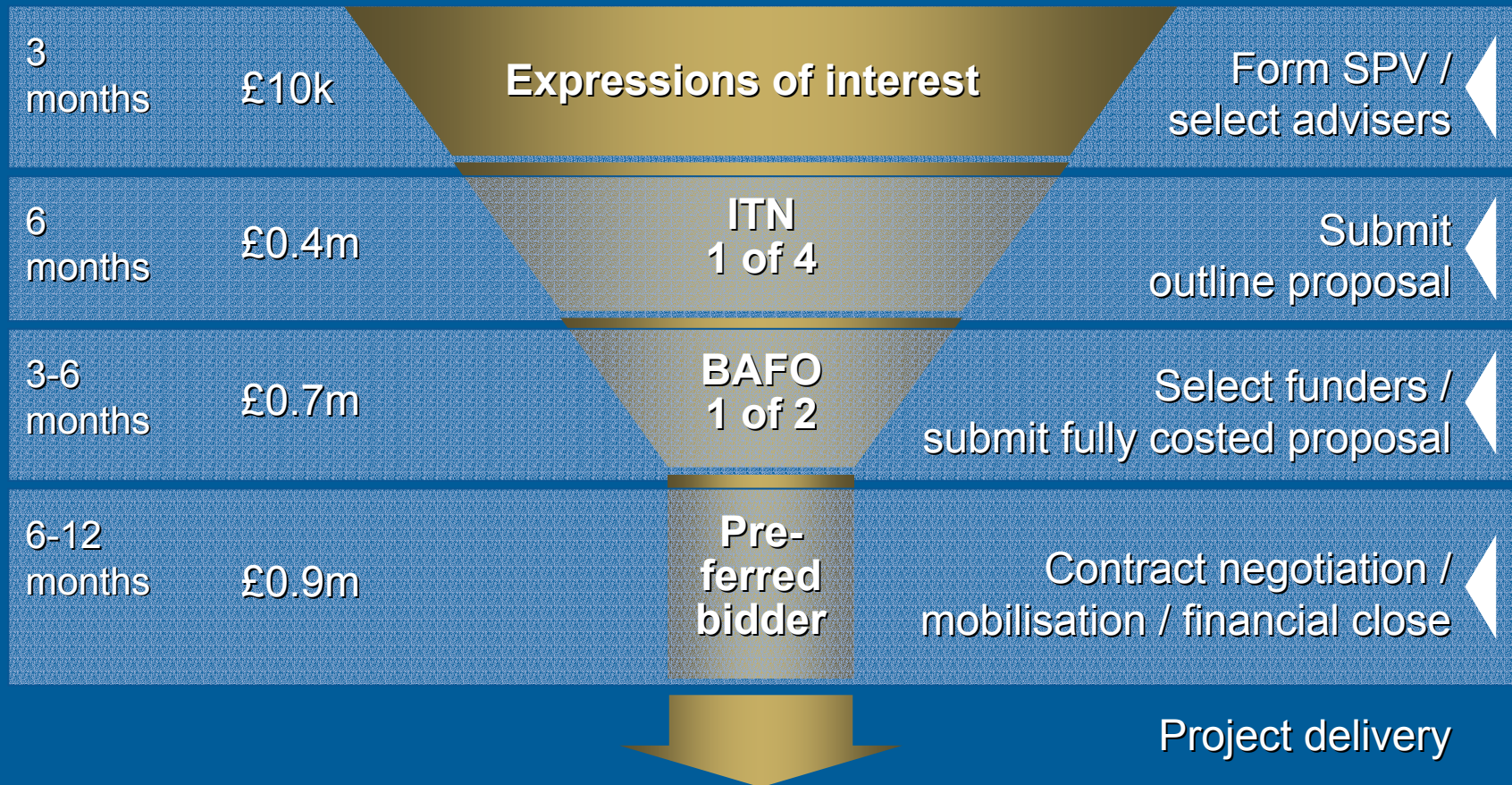
Accounting

Balfour Beatty – cashflows and profits to date

Balfour Beatty – future cashflows and profits

PPP/PFI bidding process

OJEC advertisement



Bidding costs and recoveries – cash

£m	To 1999	2000	2001	2002	Est 2003	Total
Gross bidding costs and overhead	(22)	(7)	(11)	(13)	(11)	(64)
Recovery of bid costs from wins	16	5	-	-	16	37
Net bidding costs	(6)	(2)	(11)	(13)	5	(27)

Financing

Highly leveraged

Risks mitigated

Non-recourse

Sources of finance

Liquidity

Risk assessment and management

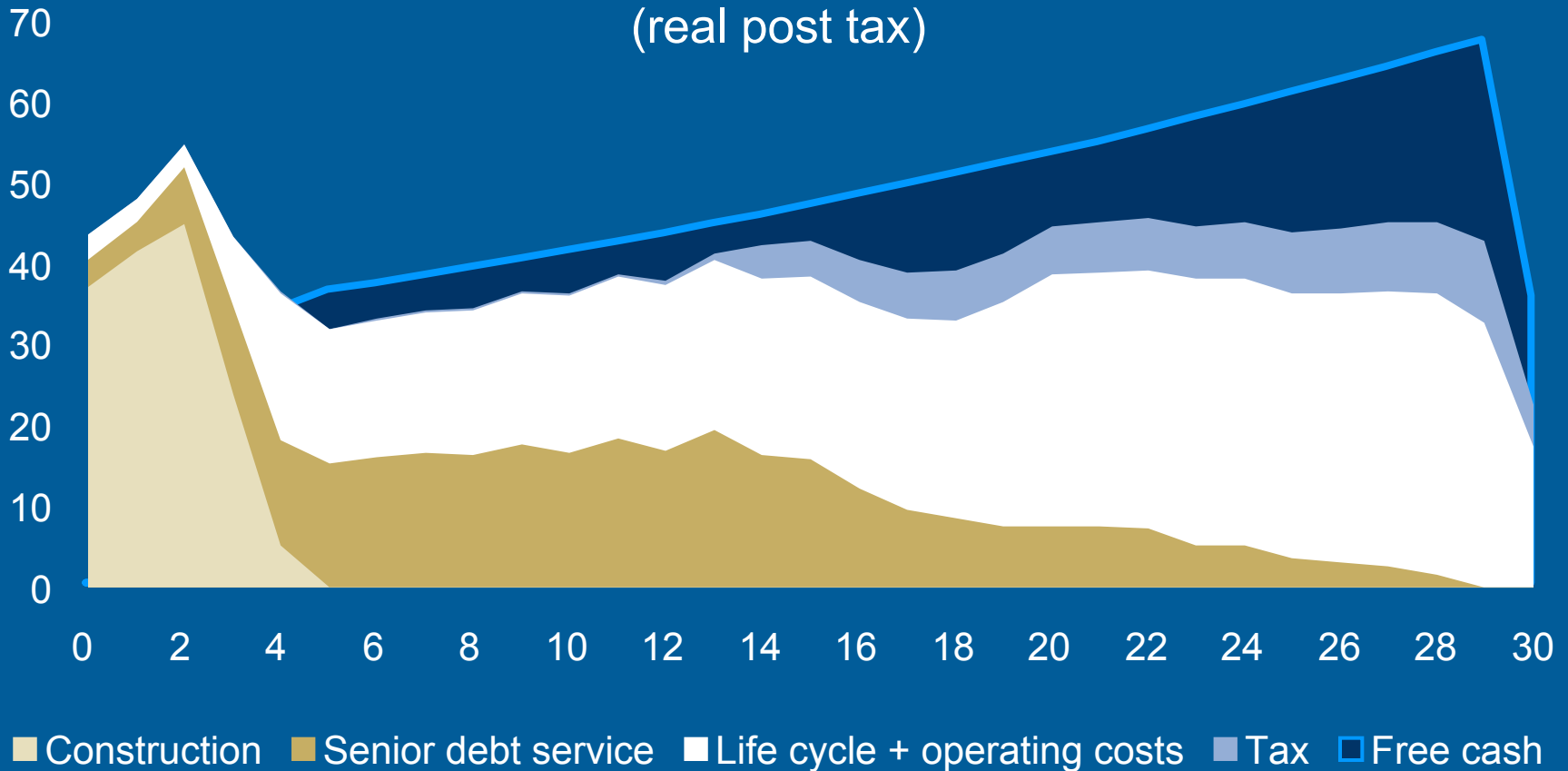
- Income - low volatility
- Capital costs - fixed price
- Operating costs - largely fixed
- Financing costs - hedged
- Inflation - income RPI formula

Highly predictable profits and cash

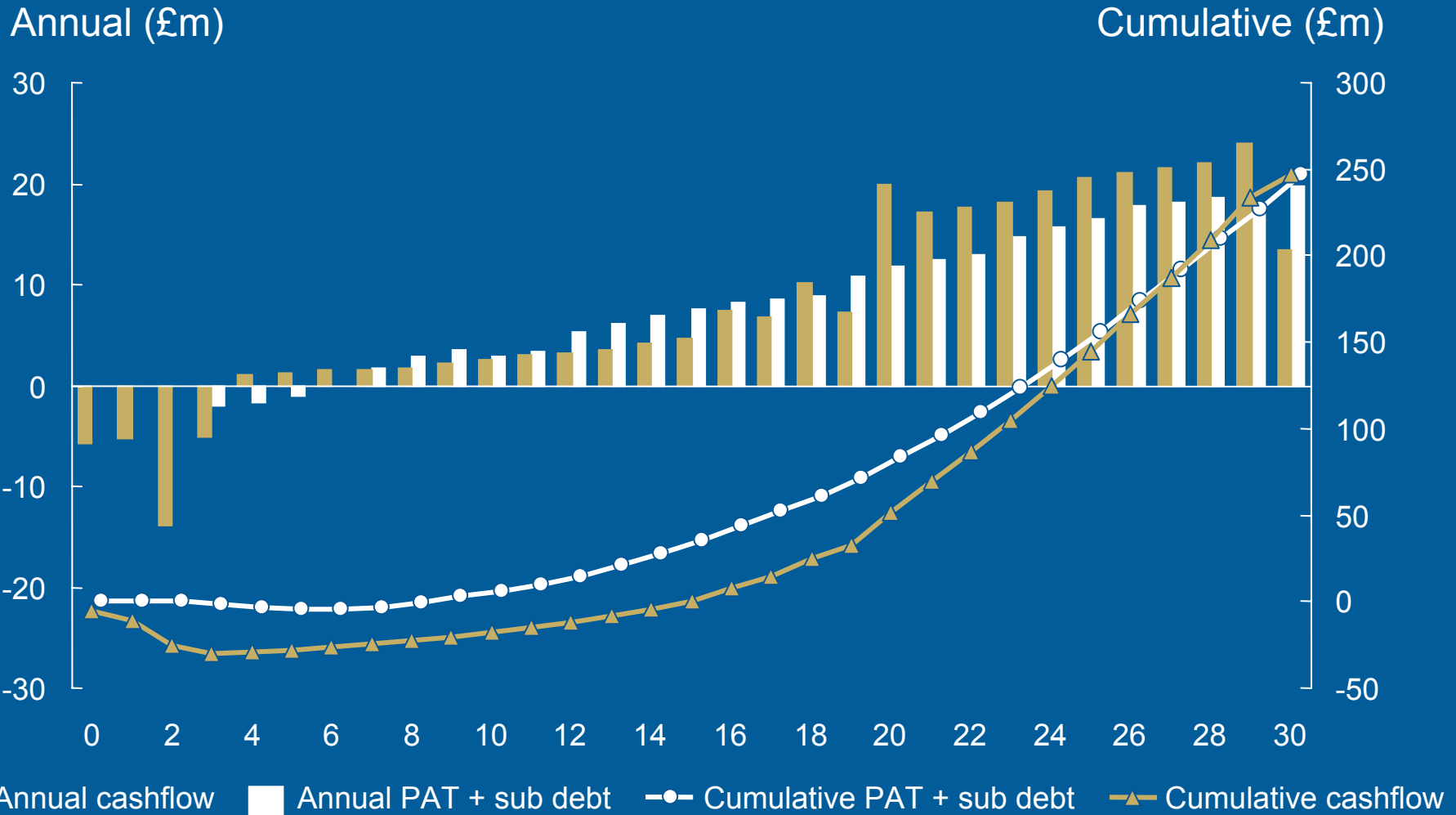
Generic £150m project cashflows

Yearly (£m nominal)

IRR : 14-18%
(real post tax)



Generic project – BB profit & cashflow



Some accounting issues

UITF 34

Fixed asset or contract debtor

- Balance of risk
- Operating profit v pre-tax profit

Revenue recognition

Interest during construction

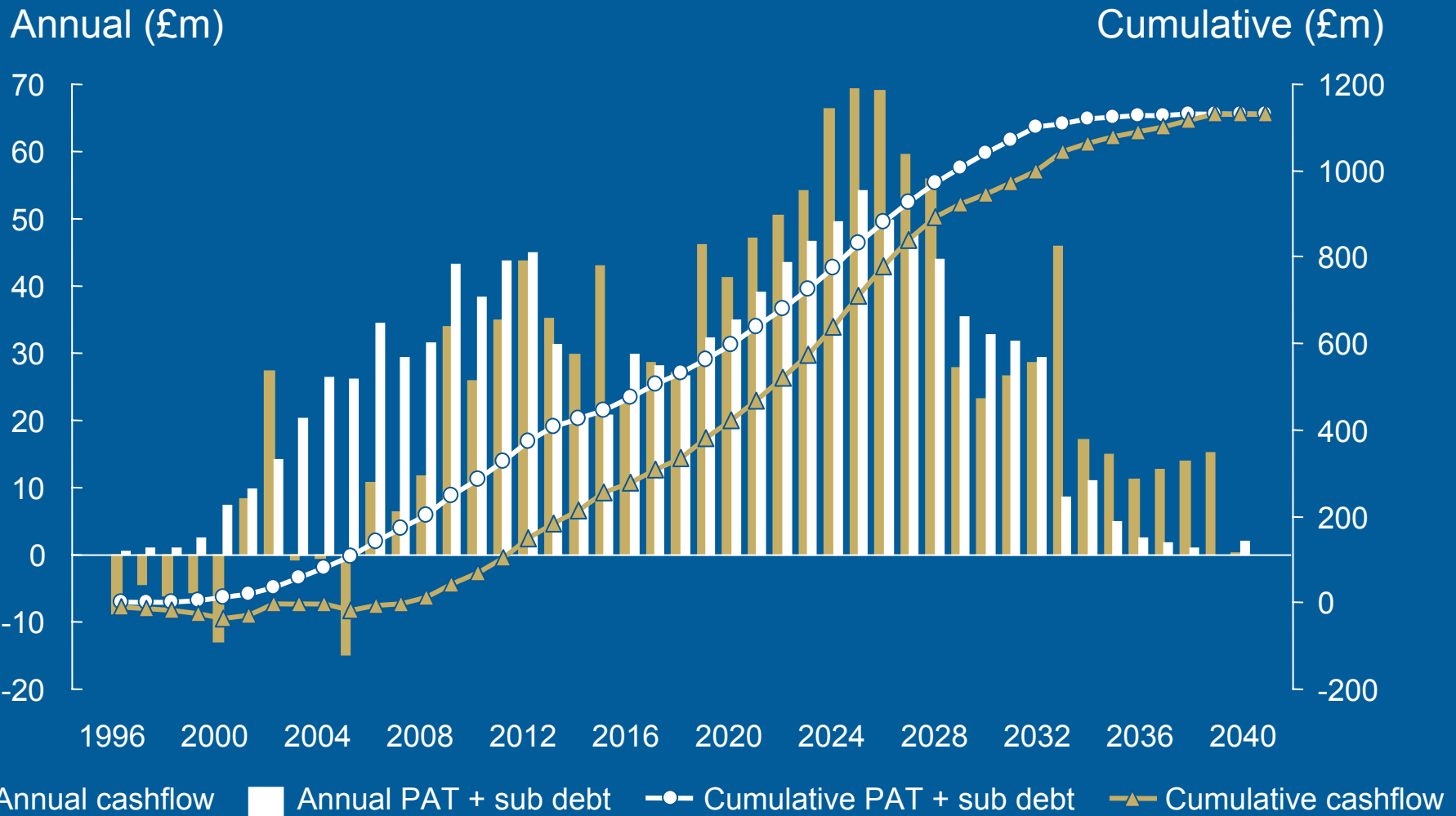
Balfour Beatty's PPP/PFI cashflows

£m	To 1999	2000	2001	2002	Total
Equity	(4)	(2)	-	-	(6)
Subordinated debt	(22)	(11)	(9)	(7)	(49)
Gross investment in concessions	(26)	(13)	(9)	(7)	(55)
Subordinated debt principal repaid	-	-	1	2	3
Net investment in concessions	(26)	(13)	(8)	(5)	(52)
Subordinated debt interest received	-	-	8	1	9
Dividends	-	-	2	13	15
Upstream loans	-	-	7	18	25
Total cash received from concessions	-	-	17	32	49
Net cashflow (to)/from concessions	(26)	(13)	9	27	(3)

Balfour Beatty's PPP/PFI profits

£m	To 1999	2000	2001	2002
Profit and loss account				
Turnover	53	41	69	80
Operating profit	22	25	36	40
Interest	(18)	(22)	(25)	(24)
Profit before taxation	4	3	11	16
Taxation	(1)	(1)	(4)	(5)
Profit after taxation	3	2	7	11
<i>Subordinated debt interest receivable</i>	-	5	3	4
<i>Total pre-tax profit to Balfour Beatty</i>	4	8	14	20

BB's share of existing concessions



Mike Welton

Chief Executive, Balfour Beatty plc

SUMMARY

Balfour Beatty

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

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Appendices

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Summary of BBCPL PPP/PFI projects that have reached financial close

Concession	Project	Total debt & equity provided	Shareholding	Date awarded	Duration - years
Infrastructure - transport					
Yorkshire Link	A1/M1 30km DBFO road	£290m	50%	1996	30
Connect Roads	A30/A35 102km DBFO road	£127m	68%	1996	30
Connect Roads	A50 57km DBFO road	£42m	68%	1996	30
Connect Roads	M77 DBFO road	£167m	67%	2003	32
Metronet BCV	London Underground	£1,783m	20%	2003	30
Metronet SSL	London Underground	£2,108m	20%	2003	30

Summary of BBCPL PPP/PFI projects that have reached financial close

Concession	Project	Total debt & equity provided	Shareholding	Date awarded	Duration - years
Infrastructure – process					
Dundee Energy Recycling	8MW waste to energy plant	£44m	20%	1997	20
Powerlink/PADCo	London Underground power system	£184m	10/25%	1998	30
Aberdeen Environmental Services	Wastewater/sewage treatment plant	£92m	45%	2000	30

Summary of BBCPL PPP/PFI projects that have reached financial close

Concession	Project	Total debt & equity provided	Shareholding	Date awarded	Duration - years
Accomodation					
Edinburgh Royal Infirmary	Teaching hospital and medical school	£220m	42.5%	1998	30
North Durham Hospital	District general hospital	£90m	50%	1998	30
University College London Hospital	Teaching hospital	£282m	33.3%	2000	40
Transform (Stoke)	Grouped schools project	£74m	50%	2000	25
Transform (Rotherham)	Grouped schools project	£113m	50%	2003	31

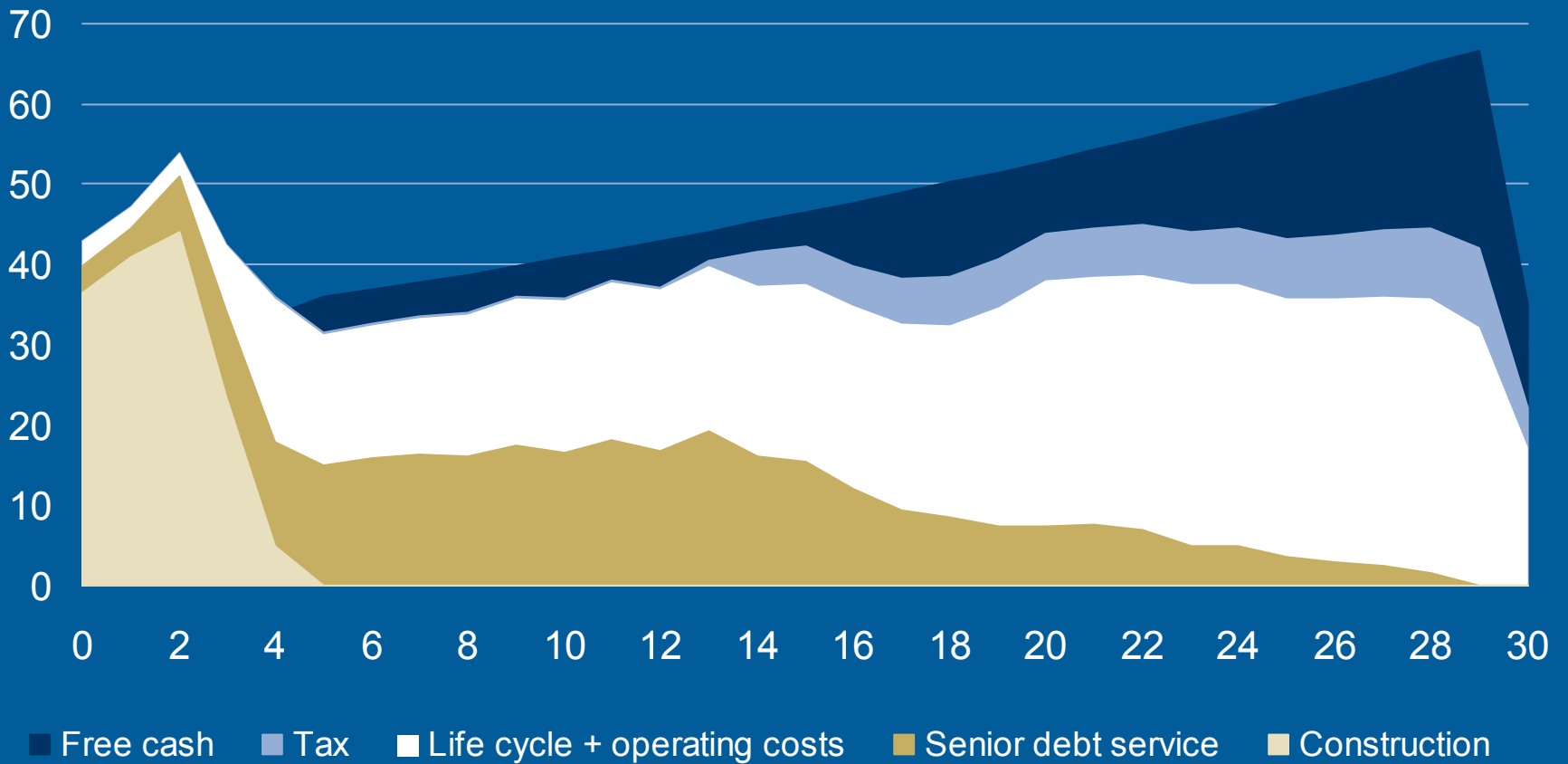
As of June 2003, BBCPL has a further two PPP/PFI schemes at preferred bidder stage

Concession	Project	Total debt & equity provided	Shareholding	Expected closure
Sunderland	Street lighting	£27m	50%	2003
Blackburn Hospital	District general hospital	£116m	50%	2003

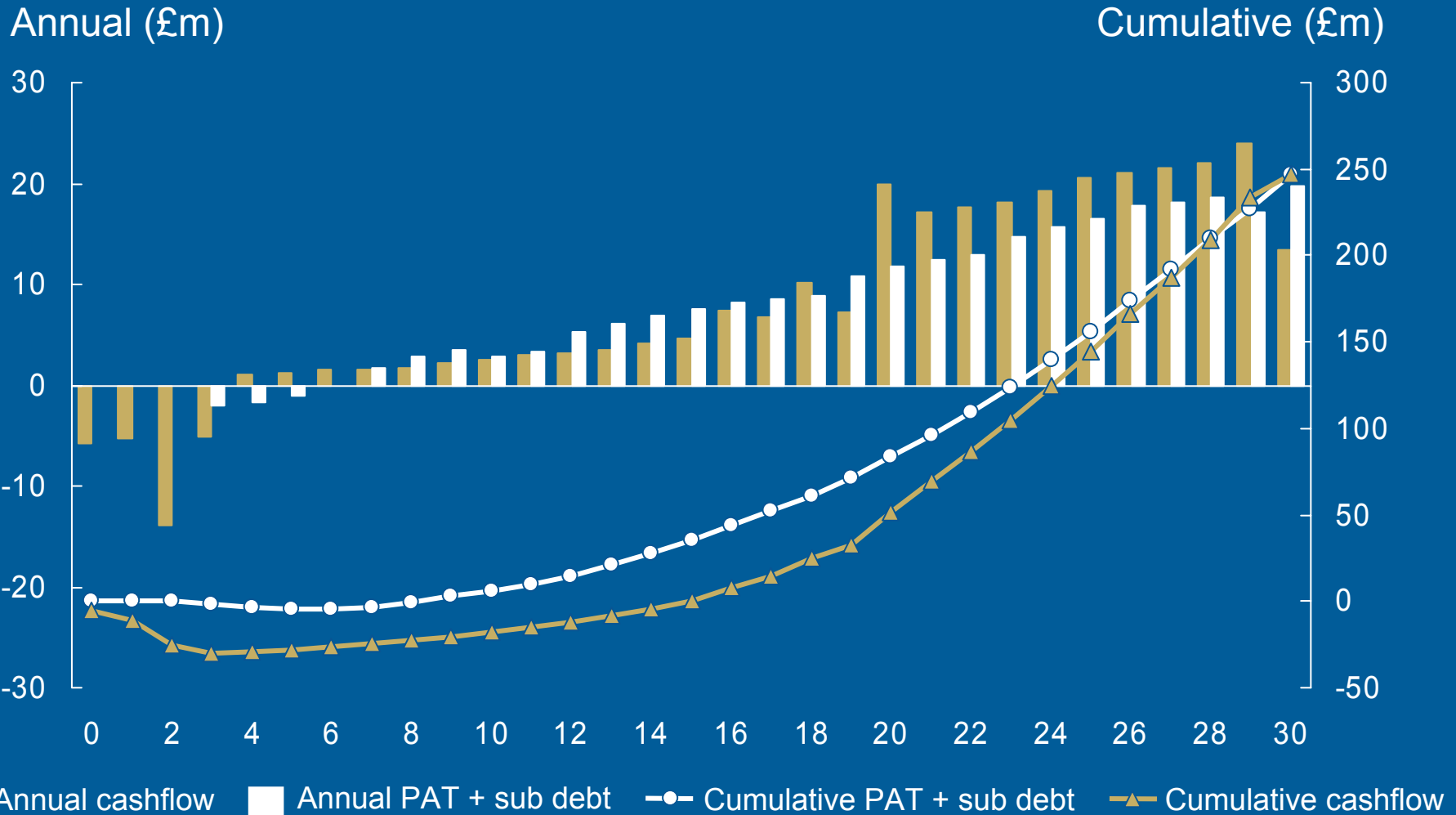
SPARE SLIDES

Generic project cashflows

Yearly (£m nominal)



Generic project – profit & cashflow



Generic project – profit & cashflow

