Balfour Beatty

# 2011 full-year results presentation

8 March 2012




# IAN TYLER

## Chief Executive

# A strong performance

- Demonstrating diversity, flexibility and resilience
- Growth in revenue and earnings in all divisions except for Construction Services
- Underpinning profits in the near term by expanding cost efficiency and asset disposal programmes
- Opportunities for our business in industry verticals and growth markets



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# DUNCAN MAGRATH

## Chief Financial Officer

# Agenda

- Financial highlights
- Segmental performance
- Balance sheet and cash

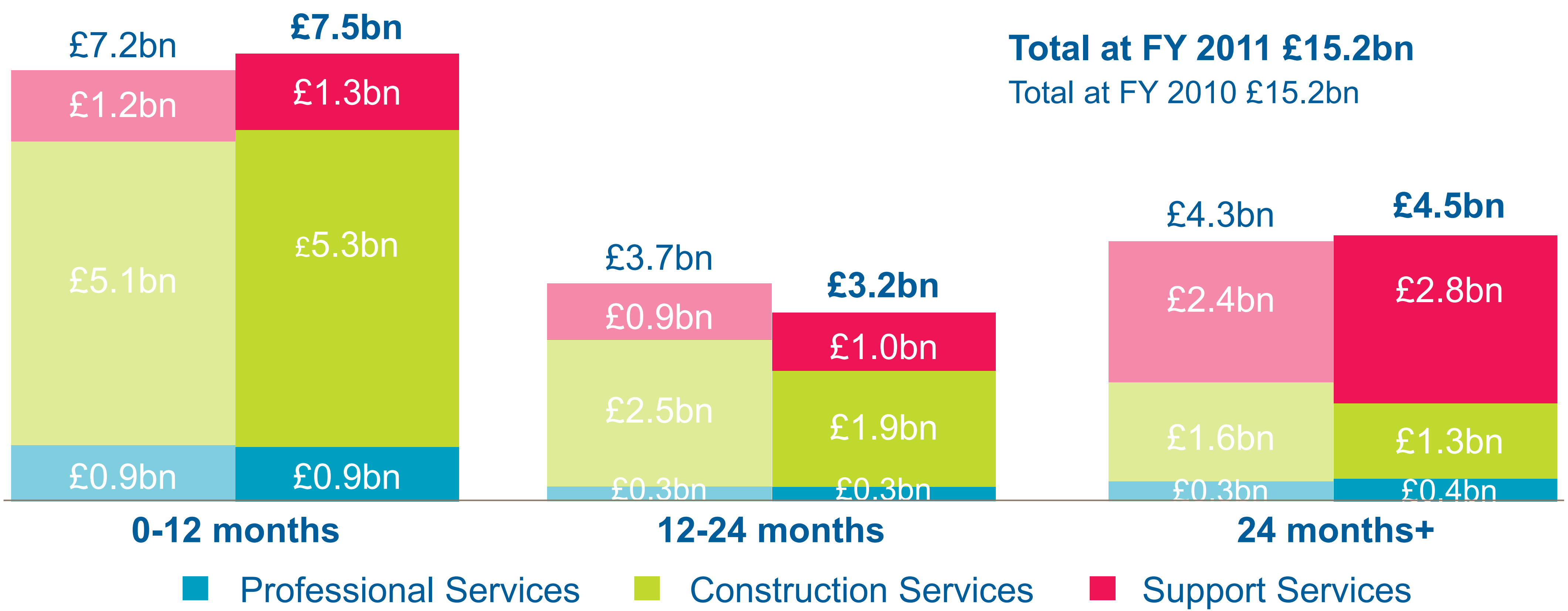
# Headline underlying numbers
## Strong performance

| | FY 2011 | FY 2010# | Actual growth | Constant currency |
|---|---|---|---|---|
| Revenue* | £11,035m | £10,473m | +5% | +6% |
| Profit from operations* | £331m | £325m | +2% | +2% |
| Pre-tax profit* | £334m | £306m | +9% | |
| Underlying EPS* | 35.5p | 32.7p | +9% | |
| Full-year proposed dividend | 13.8p | 12.7p | +9% | |
| Cash generated from operations | £35m | £169m | | |
| Average cash for the year | £200m | £435m | | |
| Net cash (excluding 100% PPP) | £340m | £518m | | |
| Directors' valuation of PPP | £743m | £671m | | |
| Order book | £15.2bn | £15.2bn | - | - |

** from continuing operations, before non-underlying items*
*# re-presented for the classification of Barking Power as a discontinued operation*

# Order book position

## Resilient order book, despite reduced construction orders




*In each series group, the left-hand column represents the order book as at 31 December 2010, and the right-hand column as at 31 December 2011*



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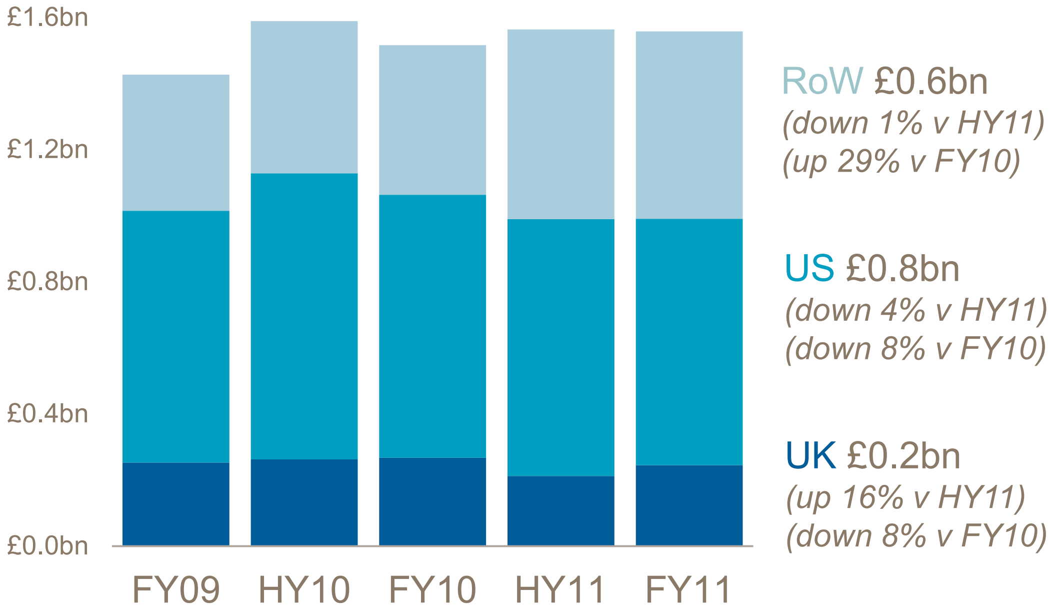
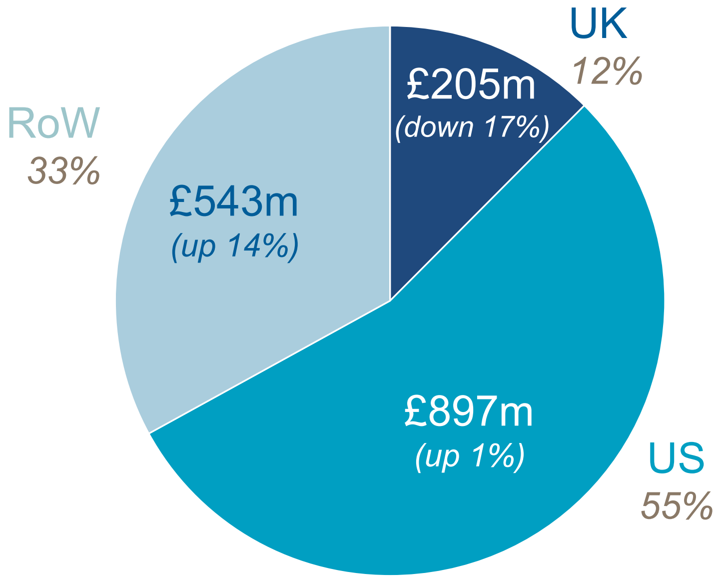
# Professional Services – FY 2011 by geography
## Modest growth in order book and revenue




**Order book**

£1.6bn

(no change v HY11: £1.6bn)
(up 7% v FY10: £1.5bn)

**Revenue**

£1,645m up 2%

(FY10: £1,613m)

*Percentage changes relative to FY10*



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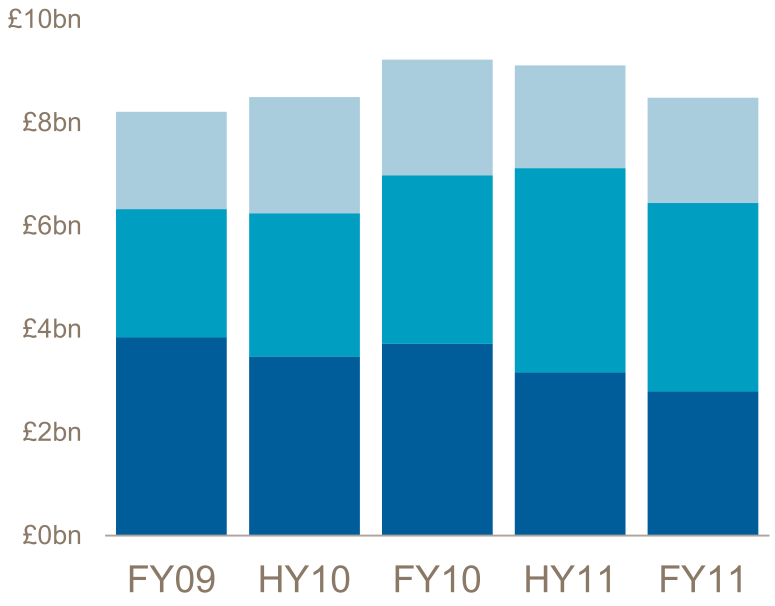
# Professional Services

| | FY 2011 | FY 2010 | Actual growth | Constant currency |
|---|---|---|---|---|
| Order book | £1.6bn | £1.5bn | +7% | +6% |
| Revenue | £1,645m | £1,613m | +2% | +2% |
| Profit* | £87m | £85m | +2% | +1% |
| Margin % | 5.3% | 5.3% | | |

** before non-underlying items*

- 5.3% margin up on 2010’s underlying 4.8% excluding 2010’s £8m additional incentive income
- Good performance in the US, particularly power
- Growth in RoW, particularly Australia and Canada
- Actions taken to offset difficult UK market

# Construction Services – FY 2011 by geography
## Resilient global order book despite UK decline

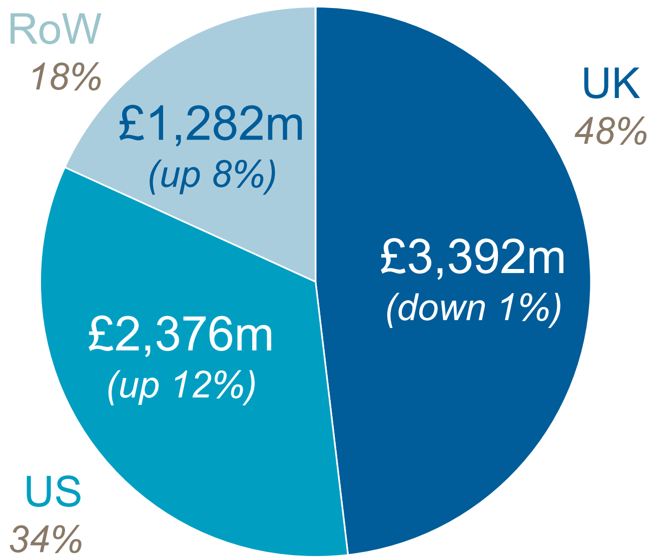



RoW £2.0bn
*(up 3% v HY11)*
*(down 9% v FY10)*

US £3.7bn
*(down 8% v HY11)*
*(up 12% v FY10)*

UK £2.8bn
*(down 12% v HY11)*
*(down 25% v FY10)*

**Order book**
£8.5bn
(down 7% v HY11: £9.1bn)
(down 8% v FY10: £9.2bn)




**Revenue**
£7,050m up 5%
(FY10: £6,734m)

*Percentage changes relative to FY10*



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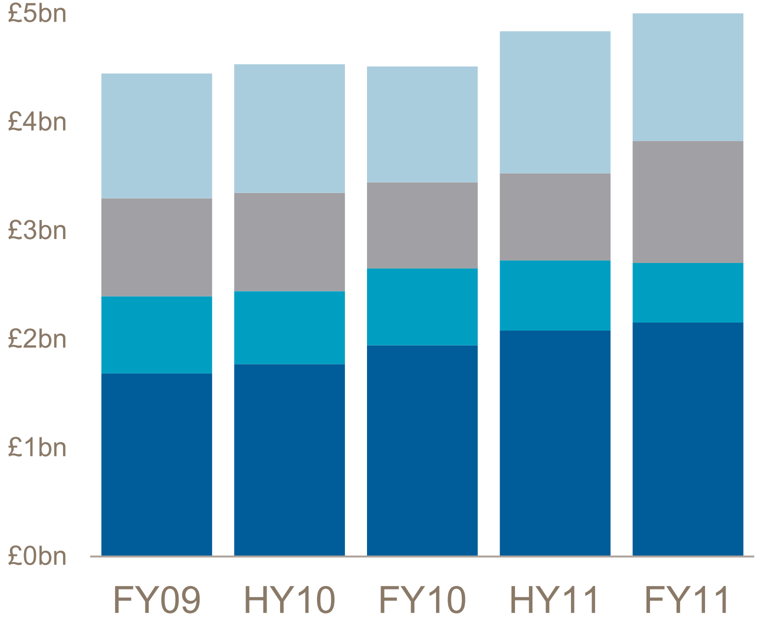
# Construction Services

| | FY 2011 | FY 2010 | Actual growth | Constant currency |
|---|---|---|---|---|
| Order book | £8.5bn | £9.2bn | -8% | -8% |
| Revenue | £7,050m | £6,734m | +5% | +6% |
| Profit* | £169m | £201m | -16% | -15% |
| Margin % | 2.4% | 3.0% | | |

** before non-underlying items*

- Good revenue performance in the US, but as anticipated, margin down on a very strong 2010
- Good profit performance in the UK on stable revenue
- Continuing revenue and order growth in Hong Kong
- Continuing low volumes and reduced order book in the UAE
- Good rail performance in UK and US, declines in Germany and Scandinavia

# Support Services – FY 2011 by geography
## Strong orders and revenue growth



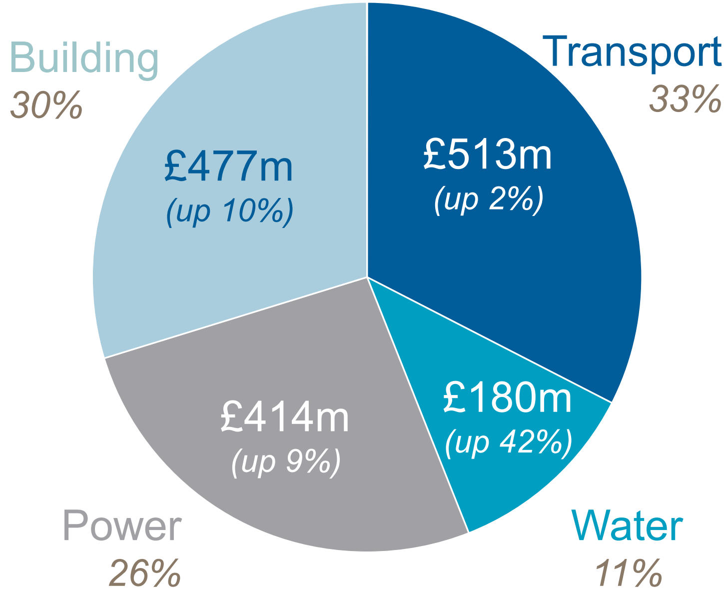

Building £1.3bn
*(down 2% v HY11)*
*(up 20% v FY10)*

Power £1.1bn
*(up 40% v HY11)*
*(up 41% v FY10)*

Water £0.5bn
*(down 15% v HY11)*
*(down 22% v FY10)*

Transport £2.2bn
*(up 4% v HY11)*
*(up 11% v FY10)*

**Order book**
£5.1bn
(up 6% v HY11: £4.8bn)
(up 13% v FY10: £4.5bn)




**Revenue**
£1,584m up 10%
(FY10: £1,443m)

*Building includes business services outsourcing and facilities management*
*Transport includes highways management and rail renewals*

*Percentage changes relative to FY10*



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# Support Services

| | FY 2011 | FY 2010 | Actual growth | Constant currency |
|---|---|---|---|---|
| Order book | £5.1bn | £4.5bn | +13% | +13% |
| Revenue | £1,584m | £1,443m | +10% | +10% |
| Profit* | £67m | £62m | +8% | +8% |
| Margin % | 4.2% | 4.3% | | |

** before non-underlying items*

- Good growth in order book, particularly power and local authority
- Revenue growth in all sectors
- Strong recovery in water as AMP5 activity increases
- Second half growth in power revenues

# Infrastructure Investments
## Strong earnings performance

| £m | FY 2011 Group | FY 2011 JVs & assoc | FY 2011 Total | FY 2010# Group | FY 2010# JVs & assoc | FY 2010# Total |
|---|---|---|---|---|---|---|
| PPP UK/Singapore | 1 | 37 | 38 | 1 | 30 | 31 |
| PPP US | 12 | 7 | 19 | 14 | 6 | 20 |
| Infrastructure | (3) | (1) | (4) | (4) | (1) | (5) |
| Bidding costs and overheads | (30) | - | (30) | (34) | - | (34) |
| Pre-disposals operating profit* | (20) | 43 | 23 | (23) | 35 | 12 |
| Gain on disposals | 20 | - | 20 | n/a | n/a | n/a |
| **Investments operating profit*** | **-** | **43** | **43** | **(23)** | **35** | **12** |
| *Subordinated debt interest income* | | | *25* | | | *19* |
| *PPP subsidiaries' net interest* | | | *3* | | | *(1)* |
| **Investments pre-tax result*** | | | **71** | | | **30** |
| *Investments post-tax result** | | | *64* | | | *27* |

** from continuing operations, before non-underlying items*
*n/a = disposals previously shown as non-underlying items*
*# re-presented for the classification of Barking Power as a discontinued operation*


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# Infrastructure Investments

- Achieved financial close on
  - Hertfordshire BSF
  - North West Fire & Rescue
  - Cambridgeshire and Northamptonshire streetlighting
- Appointed preferred bidder on
  - Greater Gabbard Offshore high-voltage transmission (“OFTO”)
  - Energy-from-waste facility in Gloucestershire and waste facility in Essex
  - Three military housing projects for US Air Force
- Disposed of
  - 60% interest in Connect A50 for proceeds of £16m
  - Entire 50% interest in Consort Healthcare (Blackburn) for proceeds of £12m
  - Entire 50% interest in Transform Schools (North Lanarkshire) for proceeds of £18m (February 2012)
  - Entire 25.5% effective interest in Barking Power to Balfour Beatty Pension Fund
- Directors’ valuation increased to £743m

# Net interest income

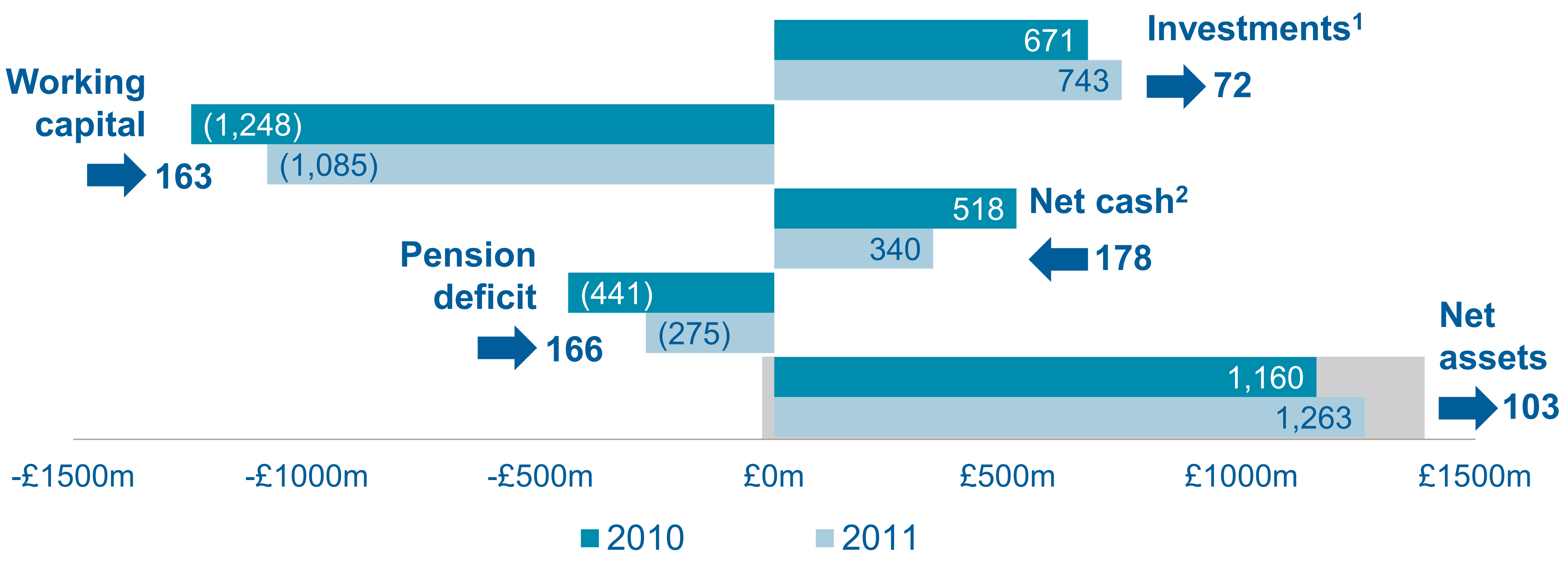
## Benefiting from PPP investment and reduced pension costs

| £m | | FY 2011 | FY 2010 |
|---|---|---|---|
| PPP subordinated debt interest receivable | | 25 | 19 |
| PPP interest on financial assets | 25 | | |
| PPP interest on bank loans and overdrafts | (22) | 3 | (1) |
| Net finance costs – pension schemes | | (3) | (21) |
| Other interest receivable | 7 | | |
| Other interest payable | (17) | (10) | (4) |
| Preference shares finance cost | | (12) | (12) |
| **Net investment income/(finance costs)** | | **3** | **(19)** |

# Cost efficiency update
## Good progress on 2010 initiatives

- UK shared service centre launched in Newcastle in October 2010 to cover accounting, payroll and procurement
- Processed first transactions Q1 2011
- Now employing 230 people
- Processing 50% of UK transactions or £3bn of revenue
- 17,500 payslips per month
- £300m of spend going through Group procurement programmes
- Conversion to new IT system in progress – first unit live October 2011
- Gross savings of £15m in 2011 – on target for £30m of gross savings by 2013 as forecast

# Balance sheet elements
## Changing shape, continued strength




[1] *Directors' valuation of PPP concessions*
[2] *excluding net debt of PPP subsidiaries (non-recourse)*



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# PPP portfolio valuation movements – FY 2011

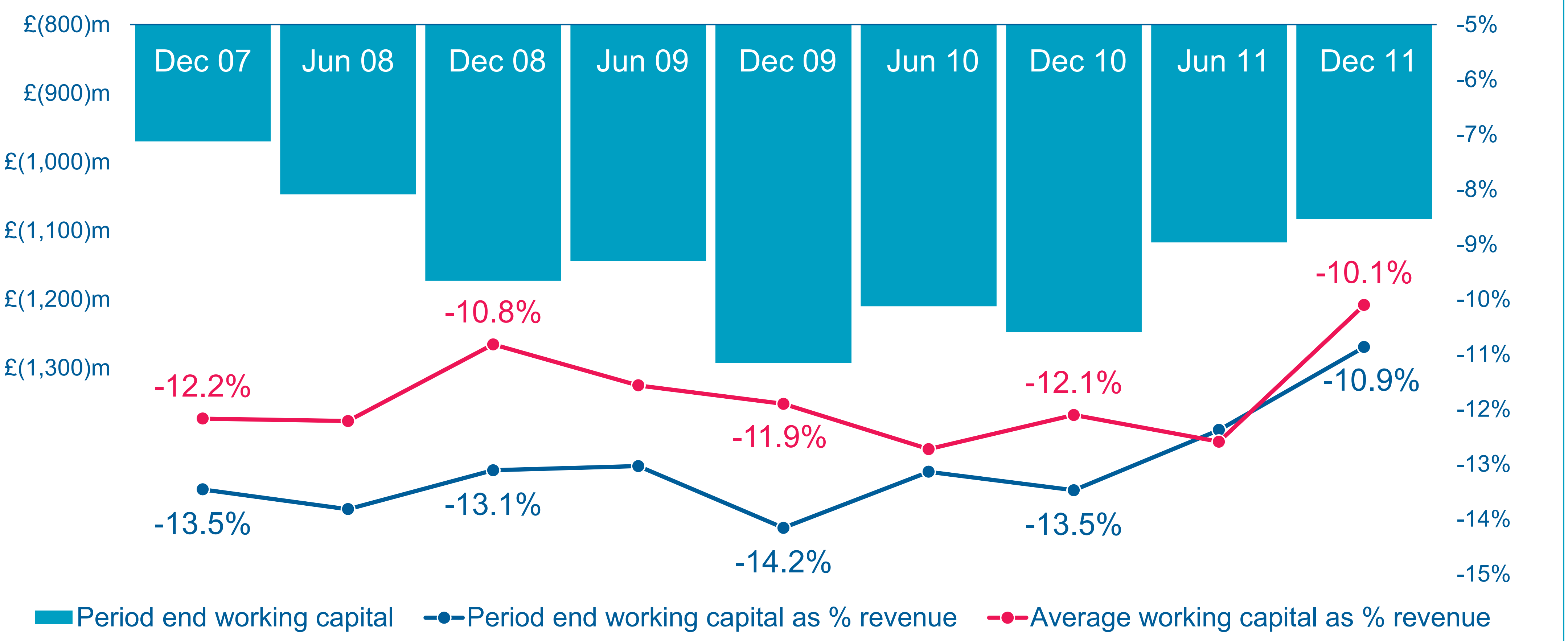
## Net cash realisation, and increased value

| £m | | | |
|---|---|---|---|
| Valuation as at December 2010 restated | | | 671 |
| Cash invested | | 52 | |
| Cash received – distributions | (70) | | |
| – disposals | (28) | (98) | |
| | Net cash received | | (46) |
| Unwind of discount on NPV | | | 69 |
| New project wins | | | 32 |
| Operational and disposal gains + FX | | | 17 |
| **Valuation as at December 2011** | | | **743** |

# Working capital – key points

- Management controls remain strong
- Varies through the business cycle
- Impacted by mix of geographies, sectors and project size
- Given the scale of business, cash movements can be significant
- Working capital remains within normal cyclical bounds

# Working capital – Group
## Negative working capital, but cyclical reductions



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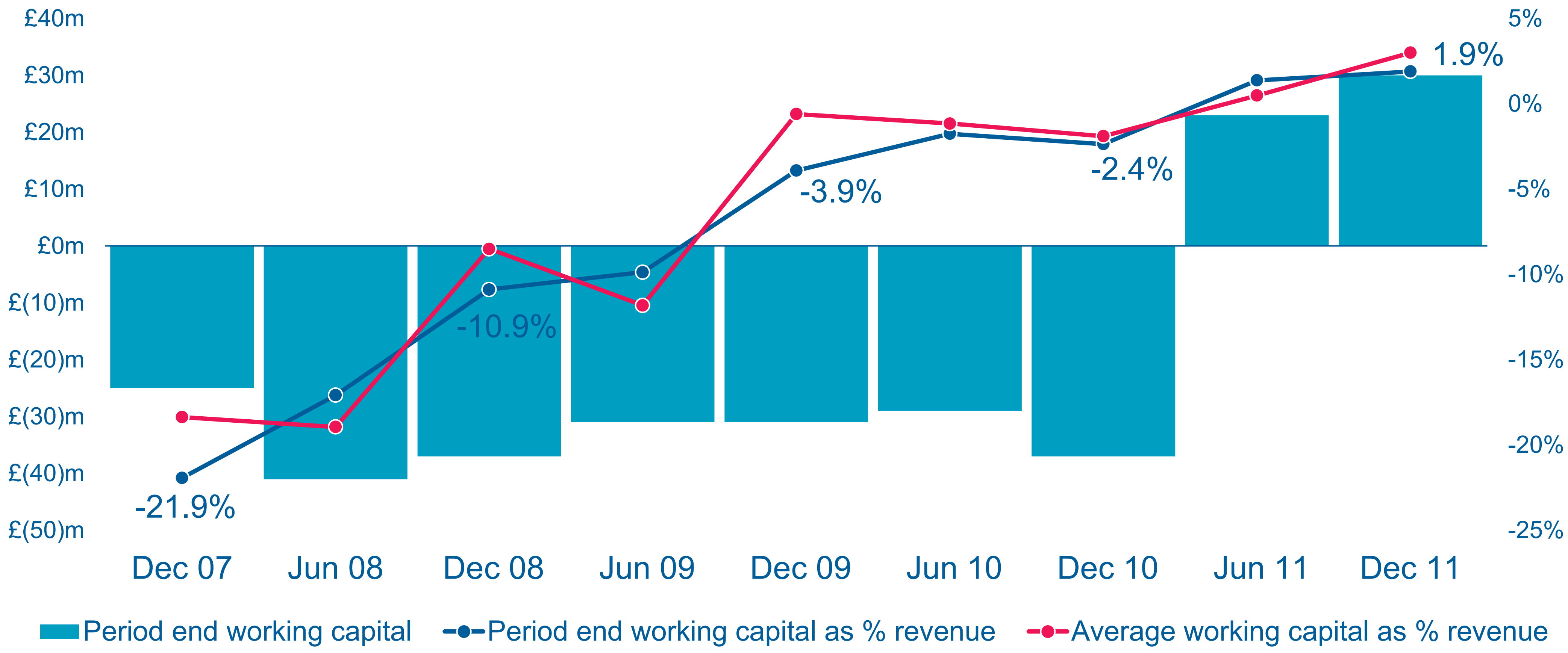
# Working capital – Professional Services

## Reverting to a normal 5% of revenue



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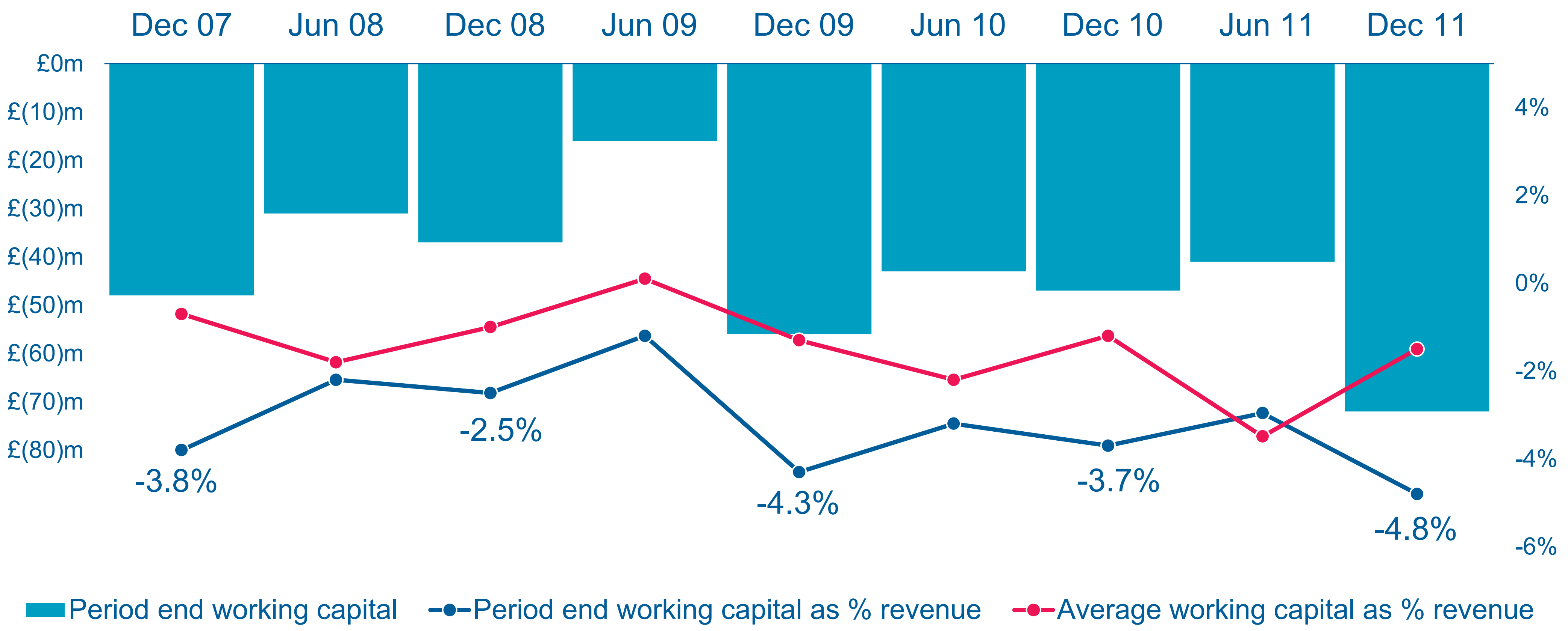
# Working capital – Support Services
## Impacted by contract cycles – particularly in HY 2011



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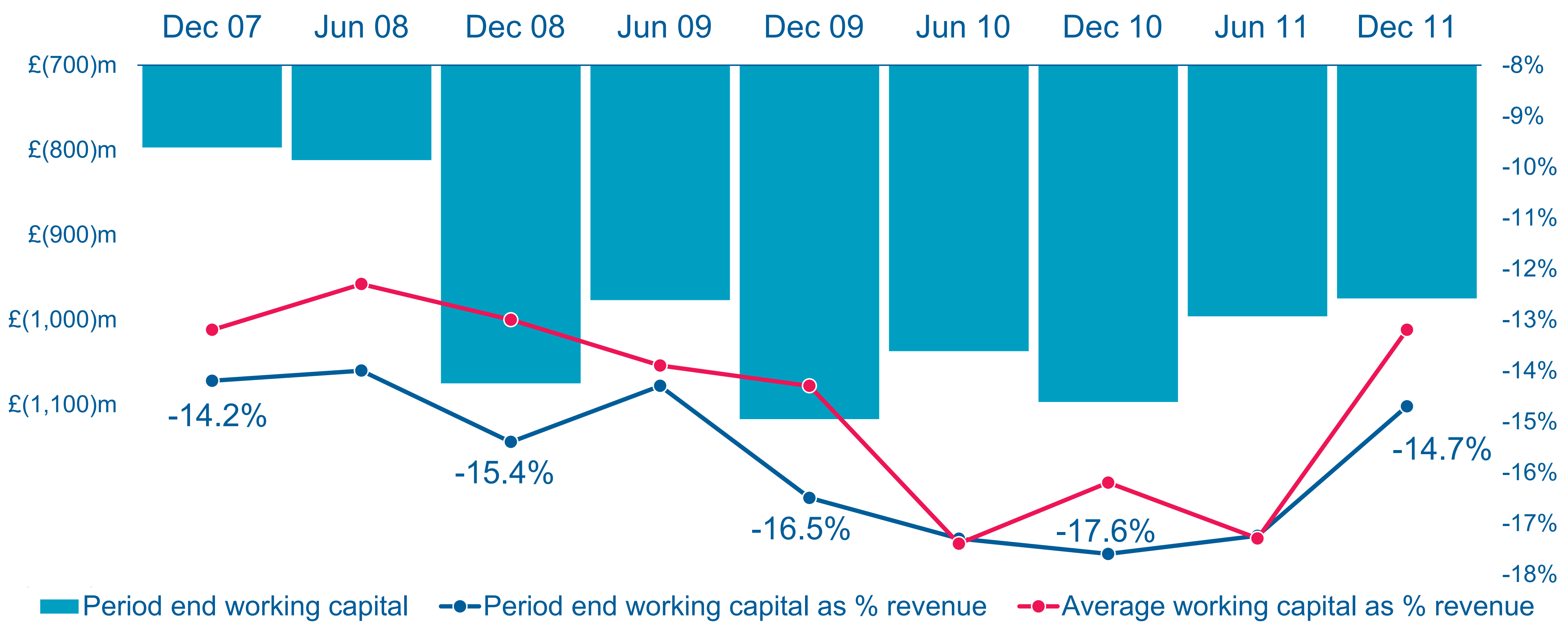
# Working capital – Construction Services

## Reductions due to cyclicality and mix



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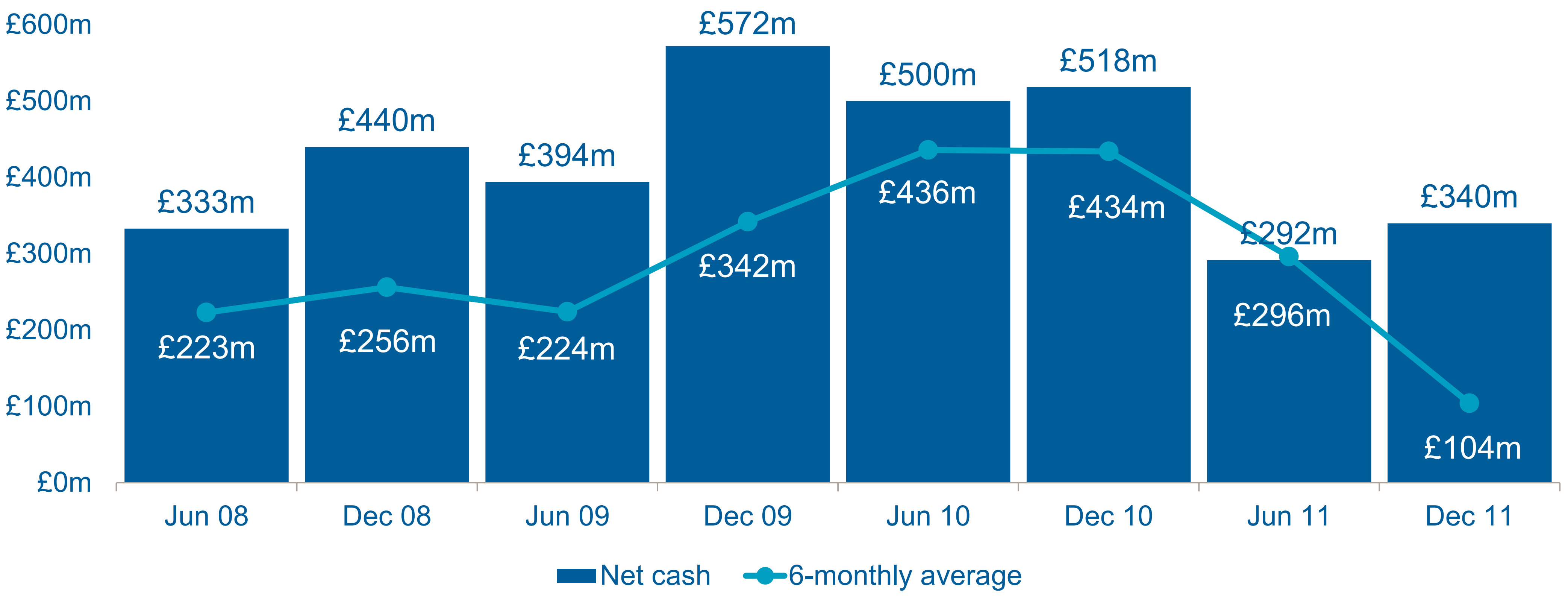
# Net cash balances†
## Impacted by working capital movements




*† excluding net debt of PPP subsidiaries*



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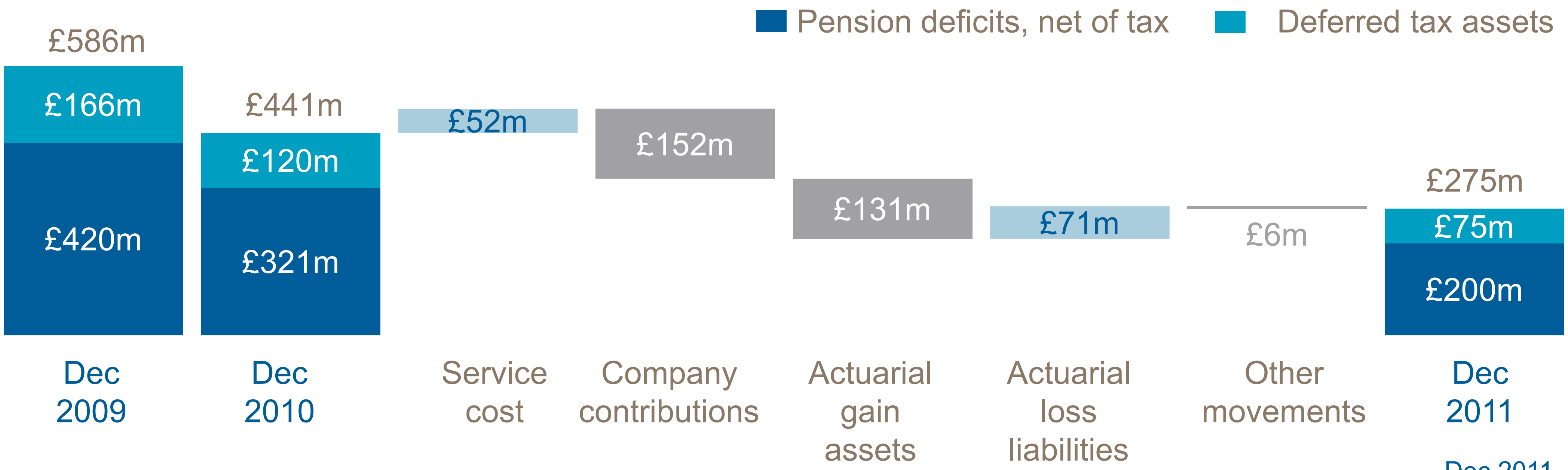
# Cash from operations – FY 2011
## Positive cash from operations

| £m | FY 2011 | FY 2010 |
|---|---|---|
| Group operating profit* | 256 | 253 |
| Depreciation | 70 | 74 |
| Non-underlying cash items | (19) | (43) |
| Other items | (13) | (2) |
| | **294** | **282** |
| Pension deficit payments – ongoing | (58) | (41) |
| Working capital increase | (201) | (32) |
| | **35** | **209** |
| Pension deficit payments – one-off | - | (40) |
| **Cash generated from operations** | **35** | **169** |
| Net capex and purchase of intangibles | (75) | (86) |
| | (40) | 83 |

** before non-underlying items*

# Pensions – balance sheet movement
## Continuing reduction in deficits




Cumulative contributions for deficit funding of £194m since December 2009

| | Dec 2011 |
|---|---|
| Net retirement benefit obligations | £200m |
| Available-for-sale mutual funds | £(50)m |
| Underlying net liability | £150m |



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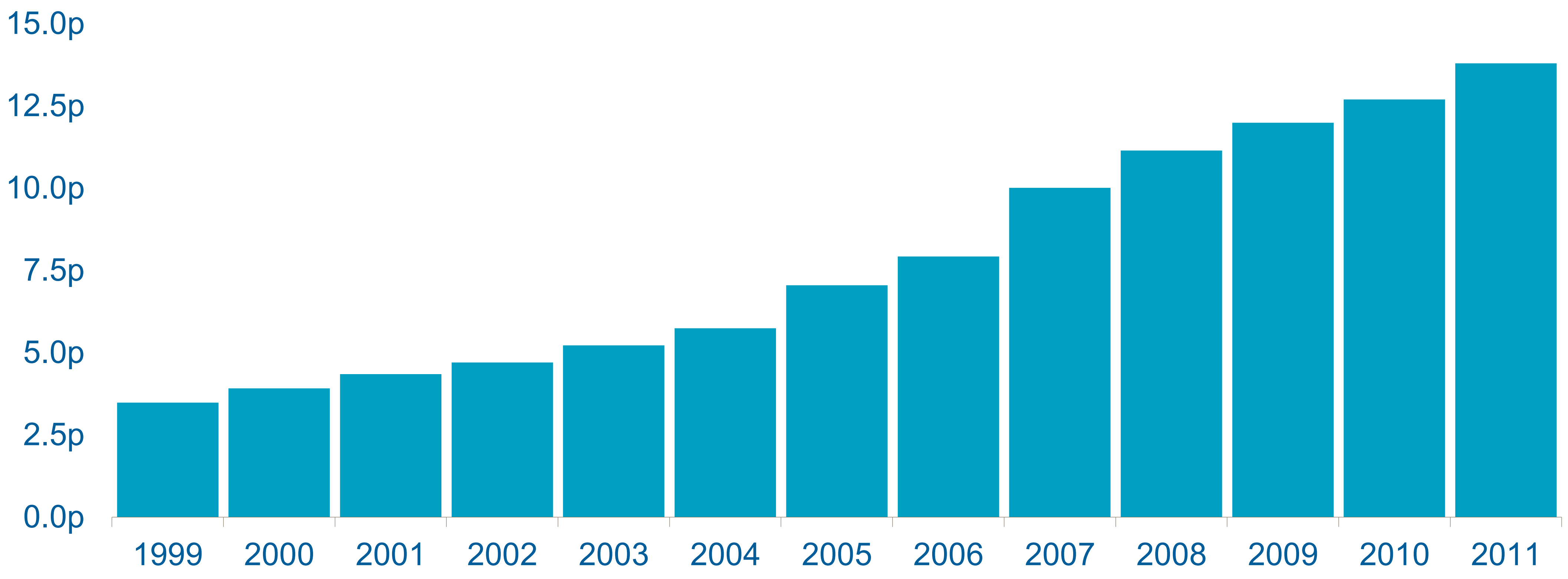
# Dividends per share

## Twelve years of growth



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# Summary of 2011

- Order book stable at £15.2bn
- Good margin performance in Professional Services
- Profit growth in Professional Services, Support Services and Infrastructure Investments offset Construction Services decline
- Pre-tax profit and EPS up 9%
- Final dividend up 11%, total dividend up 9%

# IAN TYLER

## Chief Executive

# Introduction

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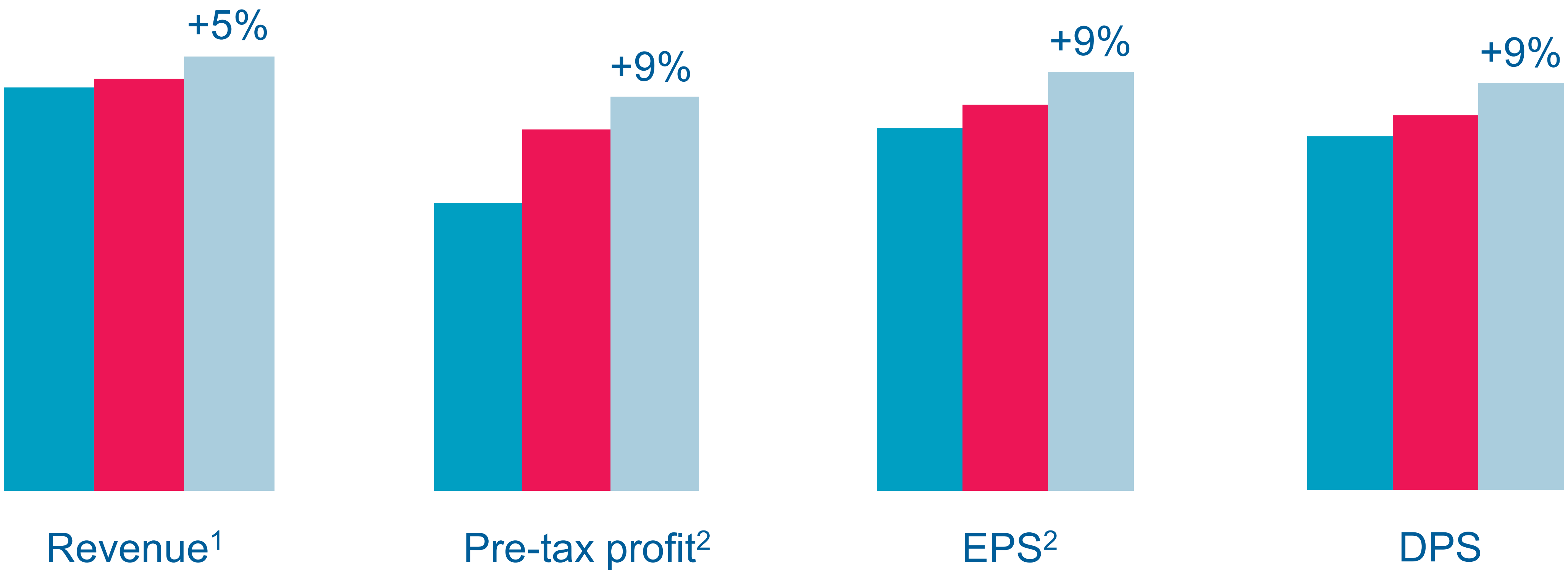
# A year of strong performance




[1] including joint ventures and associates, [2] from continuing operations, before non-underlying items



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# A year of progress towards the delivery of strategy

- Progress as planned in Parsons Brinckerhoff's performance
  - ✓ Professional Services operating margin up at 5.3%
- Completion of construction footprint in the US
  - ✓ Howard S. Wright
- PPP asset disposal programme
  - ✓ £20m gain
- Delivery of the first phase of cost reduction in the UK
  - ✓ £15m cost savings

# Agenda

- Near-term challenges and actions
- Development of strategy
- Conclusion

# Near-term challenges and actions

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# Increasing operational performance

- Current cost efficiency programme is delivering
- Expecting to be able to go further
- Moving the programme deeper into our operations
- Targeting a further £50m pa
  - Modest savings in 2012
  - Major portion to come through in 2013
  - One-off cost expected to be in a range 1 to 1.5 times the annual savings

# Accelerating the PPP asset disposal programme

- Programme successful in 2011
- Good level of activity in the secondary market
- Targeting £40m of gains in 2012
- Cash proceeds will support future investments in PPP
- Gains on disposals will contribute to profit and dividends

# Near-term challenges
## Conclusion

- Headwinds in 2012
  - Construction margins contracting
- Long-term programmes
  - Drive operational efficiency
  - Recycle capital in investments business
- These two programmes will ensure we make progress in 2012

# Development of strategy

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# Developing our business model to deliver strategy

- Continuing to develop our business model
- Parsons Brinckerhoff acquisition

## Rationale

- Make us one of the world's major infrastructure players in professional services
- Give us a leading position in US civil infrastructure
- Enhance our global positioning

- Delivering as planned
- Two distinct elements of the Group emerging

# Meeting customer demand in single-capability markets

- World-class businesses
  - Market leadership positions
  - Strong cash profile
  - Cyclical characteristics
  - Lower margin – lower risk
  - Very attractive returns on the resources committed
- Need to invest in capabilities, take advantage of niche opportunities and run efficiently

# Seizing opportunity in industry verticals

- Key industry verticals
  - Power, rail, mining, water and transport
  - Putting teams together from the breadth of the Group
  - Providing solutions to infrastructure challenges
  - Complex and valuable projects
  - Growth potential with access to new territories

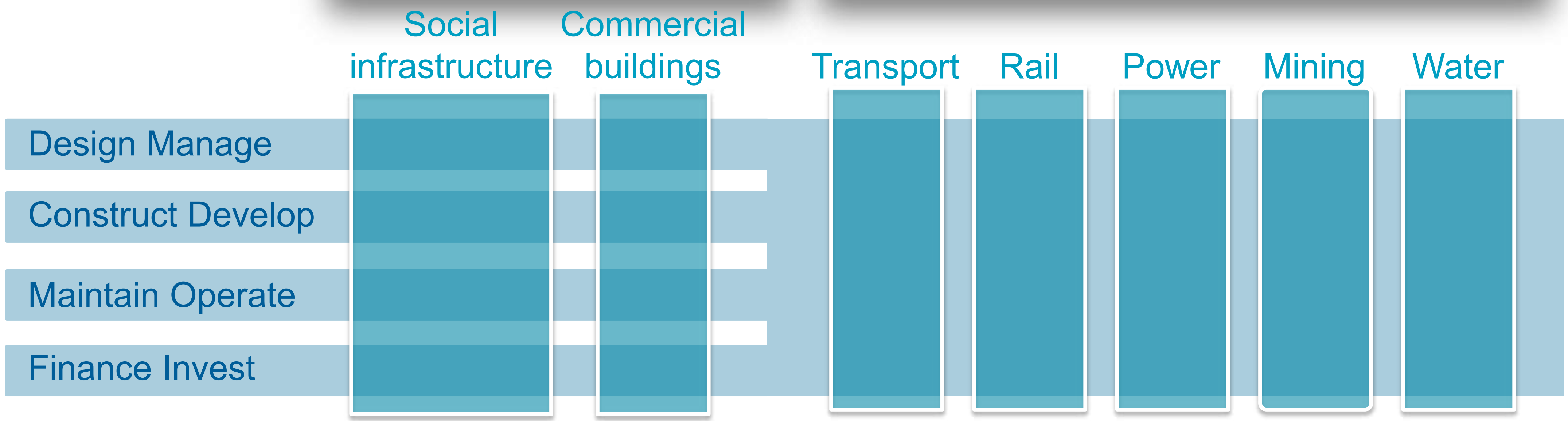
# Directing resources to where we see value

## Single-capability markets

- Single capability
- UK, US, Hong Kong
- Developed markets

## Industry verticals

- Multi-capability
- Global
- Emerging markets



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# Growing prospects in industry verticals

| Share in order book | Single-capability markets | Industry verticals |
|---|---|---|
| 2011 | 41% | 59% |
| 2009 | 57% | 43% |

# Rail

## Demand for rail systems is growing

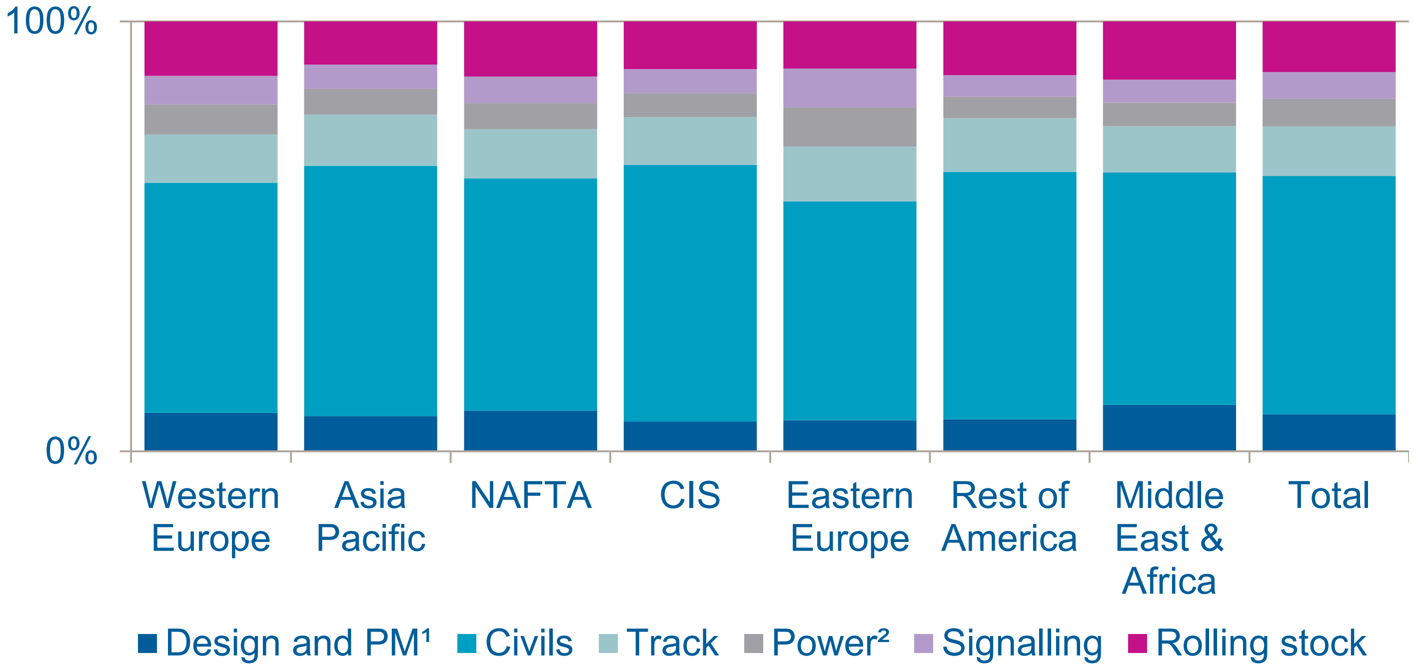
- Rapid urbanisation leading to demand for urban transit systems
- Supports industrial growth e.g. mining
- Socially and environmentally desirable in developed markets
- Global rail infrastructure spend[1] is forecast to grow, reaching £100bn by 2015

*[1] Association of the European Rail Industry (UNIFE) projections*

# Rail
## Opportunity in multi-disciplinary projects

- From design and track to electrification and rolling stock integration
- International rail projects won recently
  - Melbourne
  - Denmark
  - Qatar Rail

**Global rail infrastructure spend** (£bn 2015)




*¹ Project management*
*² Includes power and electrification*
*Source: Association of the European Rail Industry (UNIFE) projections*



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# Power
## Considerable strength across the lifecycle

Fuel / Mining

Generation

Transmission

Substation

Distribution

Consumer
(Commercial/
Residential)

Infrastructure Investments

Professional Services

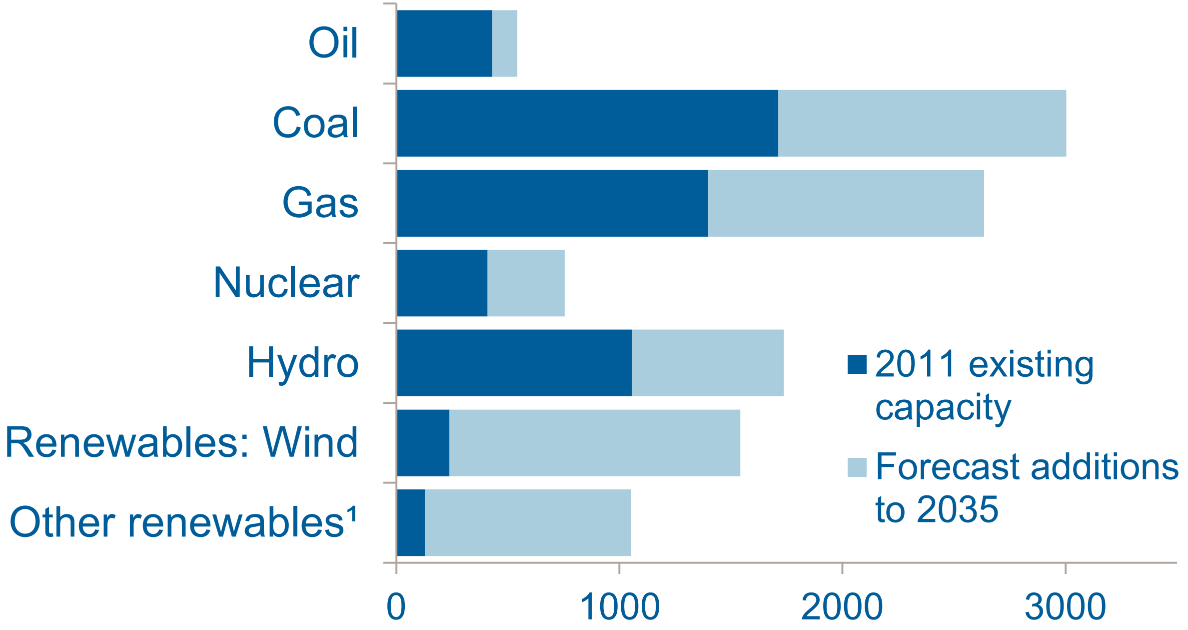
Construction Services

Support Services

# Power
## Demand is increasing

- Growing demand in developing markets
- Replacement of ageing assets in developed markets
- Environmental pressures driving renewables
- US$9trn is forecast to be spent between now and 2035
  - Growing proportion of renewables and nuclear

Global power generation 2011-2035 (GW)




*¹ includes biomass and waste, geothermal, solar PV, CSP and marine*
*Source: IEA World Energy Outlook 2011 and Balfour Beatty estimates*

# Power
## Transmission and distribution vital

- Leader in the UK
- International transmission activity
  - In the US with National Grid
  - In Australia through joint venture with UGL
  - Developing relationships in Canada

# Mining
## Integrated demand for mining infrastructure

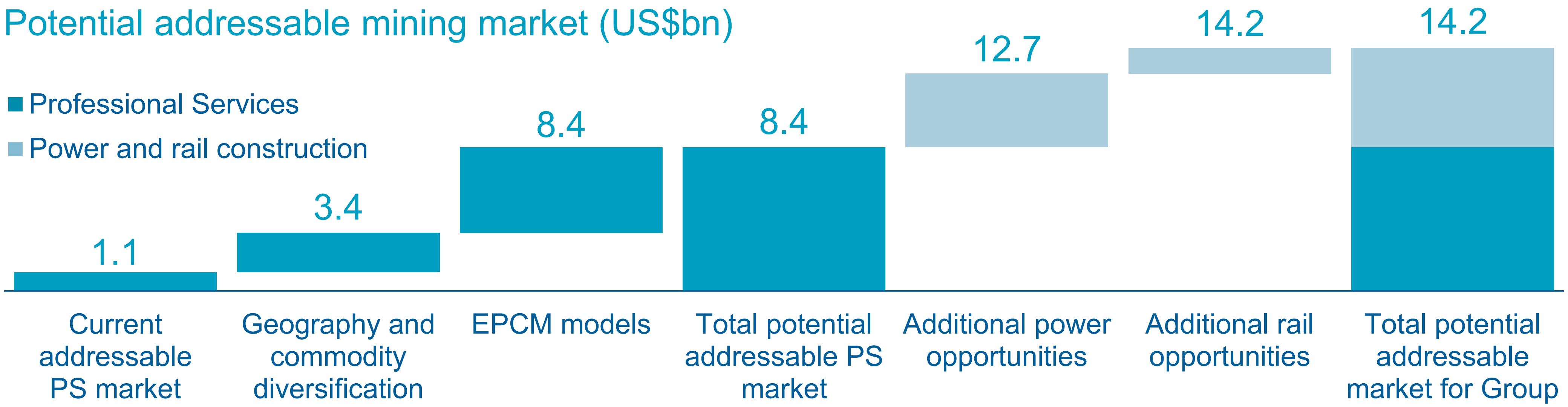
### Mine structure

| Mine | Process | | Infrastructure |
|---|---|---|---|
| • Underground operations<br>• Shafts<br>• Extraction | Upstream<br>• Crushing<br>• Screening | Downstream<br>• Smelting | • Buildings<br>• Transportation networks (e.g. rail, ports)<br>• Utilities (e.g. generation, networks) |

# Mining
## Expanding the addressable market

- Mining construction market large and growing fast
- Mostly procured via EPCMs
- Parsons Brinckerhoff expected to be springboard

Potential addressable mining market (US$bn)




*Balfour Beatty research*

# Industry verticals
## Conclusion

- We are a natural player in industry verticals such as:
  - Rail
  - Power
  - Mining
  - Transport (e.g. highways, airports)
  - Water
- Creating value from our depth of asset knowledge
- Realising the promise of our professional services acquisition
- Expecting to devote more of our resources to these vertical markets

# Growth in resource-rich economies

- Australia
  - Steady economy weighted towards infrastructure
  - Sophisticated procurement model
  - Substantial presence to develop
- Canada
  - Acquired Halsall in 2010
  - Developing a transportation and power business

# Growth in emerging markets

- Favourable growth dynamics
- Focusing on those with sufficient scale, good competitive environment and appropriate ethical standards
- Expected to grow hand in hand with our verticals strategy
- Challenges are not to be underestimated
- Prospects are very attractive

# Emerging markets progress to date

- India
  - Office to complement Parsons Brinckerhoff's presence
  - Memorandum of Understanding with Tata Projects
- Brazil
  - Opened office in 2011
- Southern Africa
  - Building out from the bridgehead we have with PB
- Middle East
  - Two significant successes in Qatar

# Conclusion

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# Conclusion

- Challenges in UK and US construction markets will remain
- Financial performance underpinned by cost reduction and asset disposal programmes
  - Expected to offset short-term headwinds and provide momentum
- Focus on industry verticals which are less cyclical
- Exposure to higher-growth geographies

# Long-term strategy

- Drive performance in key industry verticals
- Develop new geographies, deploying collective group capabilities
- Operate efficiently and benefit from cyclical recovery
- Development of infrastructure is becoming an increasing central theme of economic policy
- We are well placed to benefit from the long-term global trend for growth

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# APPENDIX

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# Performance by sector

| £m | FY 2011 | FY 2010# |
| --- | --- | --- |
| Professional Services | 87 | 85 |
| Construction Services | 169 | 201 |
| Support Services | 67 | 62 |
| Infrastructure Investments | 43 | 12 |
| Corporate costs | (35) | (35) |
| **Profit from operations*** | **331** | **325** |
| Net interest income/(cost) | 3 | (19) |
| **Pre-tax profit*** | **334** | **306** |

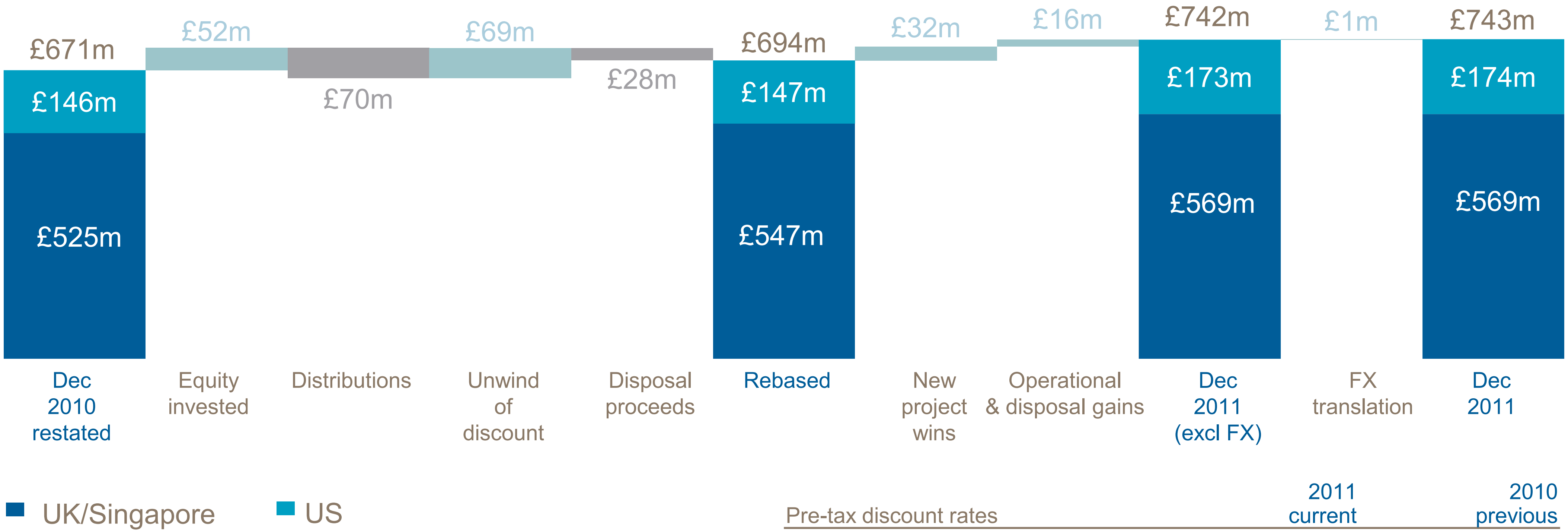
** from continuing operations, before non-underlying items*
*# re-presented for the classification of Barking Power as a discontinued operation*

# Non-underlying items

| £m | Loss before tax | Tax | Net loss |
|---|---|---|---|
| UK shared service centre | (12) | 3 | (9) |
| Loss on disposal of UK rail manufacturing* | (7) | - | (7) |
| Acquisition, post-acquisition integration, reorganisation and other costs | (7) | 1 | (6) |
| | (26) | 4 | (22) |
| Amortisation of acquired intangible assets | (62) | 23 | (39) |
| | (88) | 27 | (61) |
| Discontinued operation – Barking | | | 4 |

** including write-off of goodwill amounting to £7m*

# PPP portfolio valuation roll-forward – FY 2011




| Pre-tax discount rates | 2011 current | 2010 previous |
|---|---|---|
| UK | 9.5% | 9.4% |
| US | 12.0% | 11.5% |
| Combined | 10.1% | 10.0% |



Balfour Beatty

# Group balance sheet

| £m | Dec 2011 | Dec 2010 |
|---|---|---|
| Goodwill and intangible assets | 1,518 | 1,447 |
| Current assets# | 2,154 | 1,877 |
| Current liabilities and provisions# | (3,239) | (3,125) |
| Working capital# | (1,085) | (1,248) |
| Net cash (excluding PPP subsidiaries) | 340 | 518 |
| PPP subsidiaries – financial assets | 457 | 327 |
| PPP subsidiaries – non-recourse net borrowings | (332) | (270) |
| Retirement benefit obligations (net of tax) | (200) | (321) |
| Other assets | 973 | 1,024 |
| Other liabilities | (412) | (321) |
| **Shareholders' funds** | **1,259** | **1,156** |

# *excluding cash/borrowings, tax and derivatives*

# Balance sheet cash movement

| £m | FY 2011 | FY 2010 |
|---|---|---|
| Opening net cash† | 518 | 572 |
| Cash generated from operations | 35 | 164 |
| Dividends from JVs and associates (inc. Barking) | 59 | 62 |
| Capital expenditure and financial investment | (92) | (163) |
| Acquisitions and disposals (net of net cash acquired) | (63) | (20) |
| Dividends, interest and tax paid | (115) | (108) |
| Exchange adjustments | (2) | 12 |
| Other items | - | (1) |
| **Closing net cash†** | **340** | **518** |
| PPP subsidiaries non-recourse net debt | (332) | (270) |
| Closing net cash | 8 | 248 |

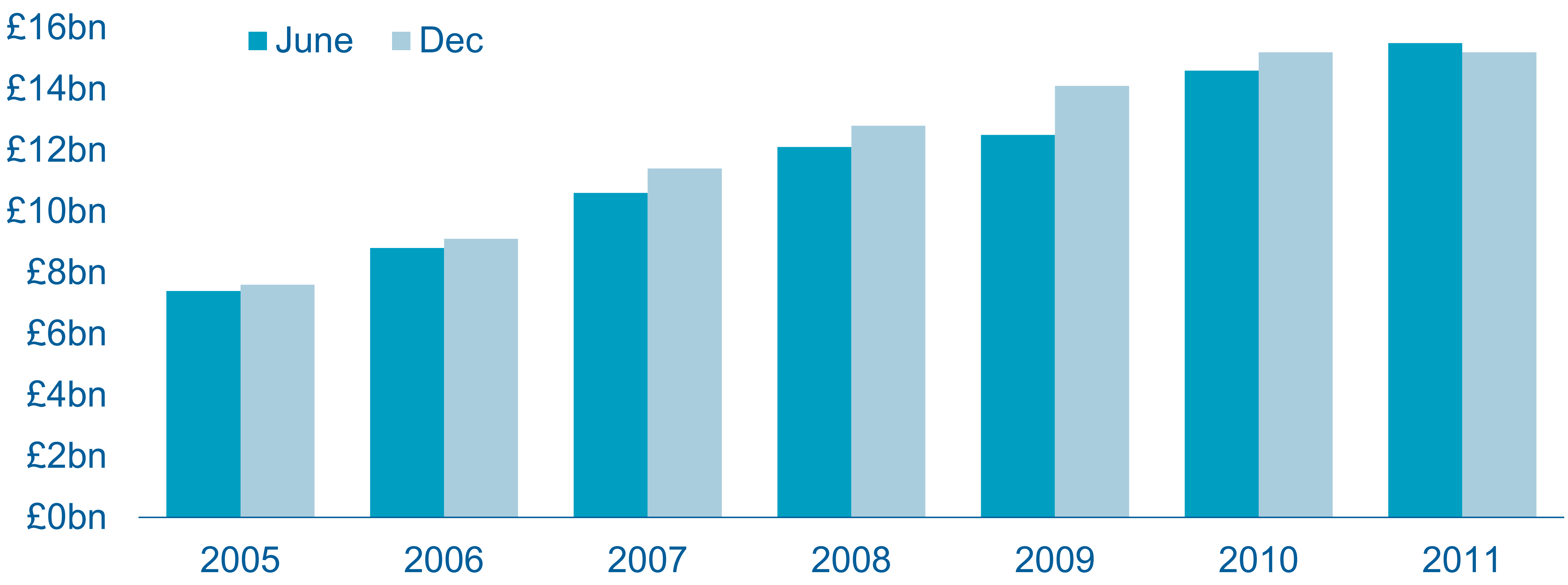
*† treating PPP subsidiaries as joint ventures/associates*

# Acquisitions and disposals

| £m | | |
|---|---|---|
| Acquisitions: | | |
| Romec Services | 30 March | 29 |
| Power Efficiency* | 7 April | 15 |
| Fru-Con Construction* | 15 June | 14 |
| Howard S. Wright* | 30 June | 33 |
| Office Projects* | 22 August | 6 |
| Deferred consideration | | 3 |
| | | **100** |
| Disposals: | | |
| UK rail manufacturing | 3 May | (37) |
| | | **63** |

** net of cash acquired*

# Order book



June
Dec
£16bn
£14bn
£12bn
£10bn
£8bn
£6bn
£4bn
£2bn
£0bn
2005
2006
2007
2008
2009
2010
2011