

**Balfour Beatty Support Services Analyst Day
National Operations Centre, Manchester
15 June 2011**

Speakers' notes

Balfour Beatty Support Services Analyst Day
15 June 2011
Ian Tyler, Chief Executive
Introduction

Ian Tyler

Good afternoon ladies and gentlemen. Welcome to the National Operations Centre - or the N.O.C. as we're all going to refer to it this afternoon.

I would like to make a brief introduction now, focusing on the role of the Support Services business in the Group, and Kevin and the team will take you through the detail of the business.

Agenda

But before I start, let me run through what we're going to cover today.

Kevin will follow me with an overview of his business and the marketplace. Nigel will make a short presentation on our highways maintenance operations, focusing as a case study on our activities on the M25. Because of our relationship with the Highways Agency this business is managed within our Construction Division although, as a service activity, it is reported in the Support Services segment.

We will then hear from Terry about the changing nature of local authority contracts – a topical subject given the need to deliver more for less – followed by Kevin who will talk about the exciting opportunities in the power and energy sector.

You may have already met Tim Cavanagh, the Director of Strategy and Operations for BBC Property, who joins us today for a discussion. Tim is here to offer us the customer's perspective and we look forward to this interactive session.

James will then take us through N.O.C.'s operations, and give us a live demonstration of a work order. Duncan has a few points to cover as well, mainly around efficiency improvements and a reporting change in Plant and Fleet Services. At that point, we will all be more than ready for a quick wrap-up from Kevin.

In order to be as efficient as possible, I'd like to suggest that we save all questions until the Q&A session at the end, and then we can pick up questions or comments on all the areas we've covered.

Infrastructure is at the core

In this brief introduction, I would like to plant two ideas in your minds before you hear from the Support Services team. Firstly, that infrastructure sits at the core of our Group as well as our Support Services offering. And secondly, that our Support Services business is differentiated in its market because of its infrastructure focus.

At a very high level, Balfour Beatty provides the assets societies need to function, develop and thrive. While we are organised along lines of the four capabilities, there is one common, overarching element in all that we do, and that is infrastructure. This is evident in the markets we serve. Transportation systems, power and water in civil infrastructure and complex buildings for education, health and defence in social infrastructure form the backbones of our business.

The development of the group as a broadly-based infrastructure group can be seen from some of things we've done recently. Clearly the acquisition of Parsons Brinckerhoff, with its business in the planning, design and management of some of the largest infrastructure projects across the world, was a major step in this direction.

But so too, for example, was the news last month that we are the preferred bidder for a second offshore transmission asset. With Thanet and Greater Gabbard, we are now the UK's biggest investor in off-shore power transmission.

The acquisition recently of Power Efficiency added 100 energy specialists to our team and, of course, we're investing in our joint venture with Vinci to build the next generation of nuclear plants across the UK. There are, as you'd expect, many other illustrations of our breadth in infrastructure.

Support services borne out of infrastructure

So, how does Support Services fit into the picture I have painted? In a nutshell, our support services offering is founded on infrastructure. It was in fact borne out of our Mechanical and Electrical business where naturally, we were asked to maintain and renew the assets we created. This started in the 1960's and was essentially a single-service business. From those beginnings it has developed into a broadly-based business providing services to infrastructure owners. It is at the core of the services we offer to many of our major customers and is a mainstay of our PFI offering.

Last year, 70% of our support services revenue was generated in power, water, highways and rail, with a third in BSO & FM, much of which is also infrastructure-related. Kevin will no doubt go into more detail, but even those BSO & FM contracts which are not infrastructure-led depend very much on the ethos of service we have gained and demonstrated in the core infrastructure work. We will continue to widen the scope of the business as a means both to retain and grow existing contracts, and to develop the business into new areas.

Differentiation – asset knowledge

The key to any successful business is differentiation - being able to do something valuable that others can't. In support services, this is particularly important. Markets in this sector can quickly become commoditised, and margins consequently squeezed to commodity levels.

For us, everything we do has asset knowledge at its core. Throughout the Group, we nurture a culture of accumulating technical expertise and sharing knowledge between the different parts of the business. The asset knowledge we gain from maintaining and operating assets for the long term allows the Group to understand more about the characteristics and the whole life cost of the asset. This is crucial because this knowledge is a key component in the design and construction of the asset. Likewise, knowledge gained in the development, design and delivery of a particular type of asset allows us, both directly and indirectly, to deliver better service to our customers when it comes to operating and maintaining those, or similar, assets.

Maximising value through parenting advantage

At Group level, we know we are stronger when there is a mutually beneficial relationship between the parts. When we think of the Group's support services strategy, we consider market attractiveness as well as the parenting advantage we have. This chart is illustrative but has some good cases to consider. The sweet spot is obviously where there is a coincidence of value and parenting advantage. The types of contracts that are further from the line are likely to converge to it over time – Romec for example, in a vertical direction as we bed down the recently expanded contract for Royal Mail and start to drive efficiency savings. And off-shore wind in a horizontal direction as the group gains increasing experience in this market, both organically and through acquisition.

An integral part of the Group's future

In conclusion, Support Services is an integral part of the Group's future. We indicated last November that we would invest in the business by adding capability - by bolt-on acquisitions where necessary - to support its expected organic growth. It's an exciting part of our business with many opportunities to grow and increase profitability.

On that note, I would like to hand over to Kevin ...

<p>Balfour Beatty Support Services Analyst Day 15 June 2011 Kevin Craven, CEO, Balfour Beatty Services Business overview</p>
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Organisational structure

- Reiterating the structure that Ian mentioned, I am responsible for the four operating businesses you see here. Nigel will talk to Highways maintenance in a moment.
- It may be worth explaining the branding momentarily. Utility Solutions does what it says on the tin; WorkPlace covers FM + Business Services; Living Places is our Local Authority offer and WorkSmart is basically our Shared Services Centre.

Support Services revenue breakdown

- This is how the numbers break out and should give you clarity between reported numbers and organisation structure.
- It is important to note that some competitors will report their Mechanical and Electrical installation numbers in this area. We believe that is a construction and project activity. However, if we were to add Balfour Beatty Engineering Services to the mix, 2010 revenue would be just under £2bn.

Revenue by market vertical

- This slide picks up the exposure to the public sector and also how we fit into the group market verticals discussed by Ian earlier.
- I guess I would note that our UK public sector exposure is only 36% – probably much less than people expect and the biggest sector – about 20% - is transport which seems pretty resilient. Terry will talk about that in more detail in his Living Places slot.

Balfour Beatty Services financial performance

- So why do we group these businesses together? Obviously they have similar operating characteristics but they also demonstrate strong organic growth. Over last five years with 8% CAGR on revenue and operating profit growing significantly faster - the CAGR is just over 20%.
- Within those top line numbers, there is a couple of things going on, notably a strong performance from BB WorkPlace and also showing very clearly the cyclical nature of the utilities marketplace with the end of AMP4 and the slow start to the AMP5 registering in 2009/2010 - something that we have commented on previously.

Spectrum view of infrastructure lifecycle

What I thought we would do now is talk about how we view the world - the lens which helps us make decisions and focus. So bear with me for a while if it gets a bit esoteric.

In the infrastructure world we see two distinct parts; a spectrum with asset-focussed services over here and operations focussed services here – typically working for or with the people using the infrastructure.

In each of these areas there is a specific life-cycle associated with each market segment in the spectrum. Each chunk of the infrastructure lifecycle is an area where the Group is potentially able to extract value.

Typically the operation-focused lifecycle is less complex with these three.

Support services universe

- Taking that concept a bit further we think this illustrates the incredible diversity of the sector very well.
- So, we see this universe of services with distinctive value life-cycles where despite that diversity, there are also some common characteristics where focus and specialisation allows you to build a great business.
- Same split: asset focussed or operations focussed, this shows the areas of similarity as well as the adjacencies.
- If you look at the areas where the Group operate, you can see why there are so many opportunities.
- It might seem obvious but where you have expertise and decades of experience in each slice of the life-cycle, your ability to offer solutions across each interface and on the whole rises exponentially.
- In the middle is the emerging area where organisations might outsource everything including their core service. A clear example is Hitchinbrook Hospital – the whole hospital franchise experiment with Circle Health. There is still a lot policy uncertainty in this area, but actually there are at least another 20 hospitals in the same state as Hitchinbrook.

Client centric universe

- One of the problems with the universe view is that it is too strategic. Our market is very much contract by contract, client by client and pound by pound.
- If we switch to a client centric view you get a different perspective
- Every customer is different but has similar dynamics described here. Broadly, the demand for your services; how do you resource that demand; how do you manage those interfaces; how do you manage yourself?
- These broad areas split down ultimately into individual specialist areas.
- My key point here is excellence in one service line leads to credibility and trust – managing an adjacent service in this simple environment is relatively easy. This example demonstrates very neatly how we grew a small DWP contract in 1992 to a £50m pa currently.

Client centric universe (2)

- The much more important point for today is where clients are becoming more complex and need more than a simple outcome.
- To illustrate what happens when you get more complex outcomes from a more complex customer: the FM contract with EDF – then British Energy – had been let as a bundle of services and was worth £30m of core services with maybe £10m of variable works.
- Rather than a maintenance contract bundled with cleaning and catering for convenience, they wanted to use the contract to materially support their goal of life extension on their nuclear fleet of eight stations. At an income stream of £1m/day clear profit you can understand why that was attractive! We were able to devise solutions that met that need – a straightforward step might be

increased maintenance frequencies or replacement of critical assets early, even not maintaining something. Net result - in achieving these outputs for the client, practical outcome for us is a £65-70m/year contract.

Defining core capability

- So what is it that we do? More importantly, what is it that we do better than everyone else?
- First and foremost we keep the lights on. We keep the roads open. We maintain and assure the services our clients provide. At the highest level, as infrastructure providers, we enable everyday life to happen – the water coming out of the tap. We call that service resilience. To do that well, you need a deep understanding of how the assets perform and how you manage the interventions to improve that performance. Again it is the decades of performance data that is unique, plus the capability to turn that data into knowledge.
- Other capabilities needed to succeed in this field are the ability to enhance or improve the service. The trick is to manage the risk of service continuity whilst you do the transformation. The general Group approach to risk management is excellent, in a project environment that risk crystallises in cost or time. In our service environment it impacts on our clients' customers in rail delays, or blackouts or roads closing. Investment in technical innovation is also essential.
- Everyone will talk about client relationship. The difference between good ones and bad ones depends on both performance but also this deep insight. It is easy to talk about less easy to do. We measure this constantly and test ourselves through retention stats – though more on that later. You can see that there are millions of data points – the ability to handle them well is crucial.
- That covers most of the philosophy. Let's talk for a moment about the markets we operate in.

“Core” support services markets

- I know you much you all like data so we've put some market slides together. We will take questions on them later – fundamentally though, they show a very healthy addressable market here in the UK.
- As Ian mentioned, the heritage of Support Services is borne out of infrastructure. It follows therefore that the markets in which we have the strongest positions currently are predominately infrastructure-focused and also the largest. The exception is single services FM which is not a focus for us.
- There is a significant support services market in the UK totalling circa £50bn pa.
- Our differentiated offering, focussed on detailed asset performance knowledge and ability to deliver transformational solutions makes BB Services well placed to win in these markets.
- Outside of these core markets opportunities exist for BB Services in UK offshore transmission, international T&D, new public sector services and energy services. Let me show you a different picture of how we look these broader markets on the next slide.

BB Services target markets

- As you can see here, market sizes and growth rates vary significantly.
- Taking the total £78+bn plus addressable market shown on this slide, BB Services has roughly a 1.5% share.
- High growth opportunities exist in UK Transmission and Distribution. We have also shown the USA and Australasia Transmission and Distribution markets which I will talk about a bit later today.
- Living Places has significant growth opportunities outside its core markets – focused on integrated contracts. Terry will describe how BB Living Places is creating a business that is capable of delivering against these new evolving customer demands.
- WorkPlace appears to be in a low growth market with the impact the CSR has had on Public Sector FM; however, you can see the size of the private sector FM market and the recent acquisition of the mobile engineering business from Royal Mail will help our offer in the space.
- The key to understanding all these markets is necessarily not the size and growth but rather the contract liquidity. CSR has created pockets of contract liquidity and new opportunities which will play out over the next 12-18 months. We think we are well-placed for those opportunities.

Overview of existing competitors

- Some perspectives on our competitors, whom we've ranked in order, interesting to note is that only Carillion is in all three areas in addition to ourselves.

Moving toward the “Integrator” position

- I am reasonably certain that you will have seen versions of this slide before – this is picking up on the earlier point around complex customers.
- Obviously the left-hand end is where there is greatest competitive intensity and inevitably lower margins.
- We believe our future sweet spot is to the right end of this spectrum.

Moving toward the “Integrator” position (2)

- This might be slightly more interesting – taking that filter and applying it to a competitor set.
- We see three clear groupings in the market - a group down here providing a single service probably focussing on capability excellence in that service line.
- Another group is over here where M&A activity has been significant. There is some science around the vertical axis where the size of M&A activity has been scaled. The X axis is more subjective. We think there is another group of competitors who have developed into this integrator space. We are clearly developing a strategy to move to that area.

Selected clients & JV partners

- We have talked about markets and competitors. Now a brief word about our clients.
- You see on this chart some of our great clients we are working with. Today Tim Cavanagh is here from the BBC to give you the client's perspective.
- As you might expect with great clients we have a great order book at £4.5bn and about £1bn booked already this year. Our pipeline is pretty healthy too.

Long-term relationships

- Some proof that it isn't just talk about client centricity – here are some of the long-term relationships we have some of which extending to forty-odd years.
- The dark blue indicates JVs or alliances. I would note that the Group generally is pretty good at extracting value from these inherently more complex arrangements.
- I do think sometimes retention rates are underestimated – mostly growth rates are quoted as net – but our retention rate of 95/ 96 % vs. 80 or 90% can make a huge difference to how much business you need to win.

Strategic partnering

- These case studies are worth looking at – there is more detail in the appendix.
- The retention point was particularly acute in the case of Royal Mail as it represents almost 20% of our turnover in BB WorkPlace.
- We have a great relationship with National Grid; we are entrusted by them with the most demanding and dangerous bits of work in the extra high voltage space. We have also travelled internationally with them and working with them in the USA.
- And of course you are familiar with Power Efficiency. This small acquisition really does complement our asset enhancement skills and knowledge perfectly and the case study gives you some insight as to why our clients might find their skills compelling.

Balfour Beatty Services summary

- In summary, our deep asset knowledge and great delivery skills do strongly differentiate us in the market; we really understand the market and opportunities in front of us and we see plenty of headroom to go at.
- Given the diversity in that marketplace it would be simple to be opportunistic. We however strongly believe that greater focus will bring greater achievement.
- On that note I would like to hand over to someone who is very focussed on the M25, Nigel Russell.

Balfour Beatty Support Services Analyst Day
15 June 2011
Nigel Russell, MD, Connect Plus Services
Highways maintenance

Nigel Russell

Good afternoon ladies and gentlemen. I'm here to present on the Highway Services business within Balfour Beatty.

Balfour Beatty involvement in Highways maintenance

- The Highways Agency's (HA) network is split into six regions with 13 areas.
- Currently, Balfour Beatty are involved in three areas
 - Area 2 in the South West region
 - Area 4 in the South Eastern region
 - Area 5 which covers the M25 DBFO
- Balfour Beatty also have a large representation in five out of an overall total of 10 design-build-finance-operate (DBFO) companies which includes the A249 which we manage on behalf of Carillion.
- Our in house capability allows us to act as an asset owner, to build, maintain, manage lifecycle risk and to also provide responsive, proactive operational services on behalf of the HA.

Market share

- The three areas covered by Balfour Beatty represent 23% of the market.
- Under current rules no service provider can hold a market share of greater than 33% or four areas.

Highway Service's capability

Examples of the breadth of our capability

Highways Agency Area 5 (M25 DBFO)

- This is a 30-year project. There are some unique features in terms of Dartford crossing and long term management of the asset.
- I will use this as a case study later.

Highways Agency Area 4 MAC

- 900 km of road network in Southeast of England including the M2, M20 and M23

Highways Agency Area 2 EMAC

- technology maintenance (Areas 1 & 2)
- 1250 km of road network in the South West of England, including the M4, M5 and Severn Crossings.

Highway Service's capability

DBFO Projects

- Management of A30/A35, A50 and A1/M1 on behalf of the concession company.

Professional Services

- Our in-house specialist technical services group supporting our various highways contracts.

Chris Britton Consultancy

- Unique approach to asset management lifecycle services
- One of the world's leading providers of strategic asset and pavement management consultancy.

Case study Area 5 – M25 DBFO

As a point of interest, the M25 celebrates the 25th anniversary of its opening in October this year.

To give you an idea of the size of the project:

- In total, we operate and manage a total of 1025 kms of motorway/trunks and slips covering 6 counties.
- There are eight dedicated service depots
- We maintain and operate nearly 2000 structure of which 56 are strategic structures which includes the QEII bridge
- five tunnels and
- 26 arterial route links

So overall quite an undertaking!

Services provided

Network management

We have our own Network Operations Centre (NOC) at South Mimms providing 24/7 coverage of the Network. In addition, we have a Tunnels Operations Centre situated at Dartford. This allows us to monitor the road and tunnels, and respond to incidents in conjunction with the Traffic Officer service which operates from the regional control centres at South Mimms & Godstone.

Routine Maintenance

This is the unseen element of work as it is generally carried out during night time hours and includes litter picking, vegetation control, routine repairs and general maintenance of the asset.

Incident & Emergency Response

Over the course of last year we attended a total of 8,500 incidents using 16 dedicated incident support units during the day and eight at night.

Winter service

Since commencement of the contract there have been two severe winters. In order to ensure that the M25 remains open and safe for the travelling public we have available 27 new gritters fitted with brine tanks. During the winter of 2010 we used in total 12,000 tonnes of salt and carried out over 2,000 individual treatment runs.

Defects Management

During last year we attended to approximately 3,200 notified defects to the Network.

Services provided (2)

Asset management and inspection

- Elements of this Network are up to 60 years old and therefore the management of the condition of the asset is essential. As an example, the first sections of the M1 were opened in 1959 and the West Tunnel at Dartford was completed in 1963.
- Over the 30 years we are due to invest £1.3 billion.
- This year's plan includes £38.5m of renewals schemes – built up in the main of pavement £18m and structures £12 m.
- Key to understanding the asset is the completion of a complete asset inventory and condition survey. These will be finalised by October 2011.
- We will be seeking PAS 55 Accreditation by September 2012 and will be the first Highways maintainer to do so.

Services provided (3)

Unique to Area 5

Dartford

- At peak times there are approximately 6,000 vehicles using the crossing in each direction.
- On average £150,000 is collected daily on behalf of the Secretary of State.
- 70% of this income is collected in cash which equates to - 1 million notes and over 2 million coins per month.

Tunnel Management

- The three tunnels outside Dartford have been completely refurbished over the last 4 years with Hatfield being the last completed in May 2011.
- Dartford is currently being upgraded to meet European Tunnel Regulations. There are a series of safety measures in place to ensure the smooth running of our tunnels
 - Public address systems
 - VAID vehicle automatic incident detection
 - Plant monitoring control system
 - 24/7 monitoring
 - Ventilation to control smoke
 - Lighting that changes automatically as the daylight outside changes

Energy Management

- On the M25 we are responsible for energy supply to the Network.
- In the last year our energy consumption amounted to 42 GWh.
- We have an energy saving programme which has already identified 1 GWh savings to be made at Dartford and Holmesdale tunnels.
- Further trials using low energy bulbs are to be installed later this year.

Olympic preparedness

- We are working in conjunction with the HA to deliver the ODA requirements which include enhanced incident response during the Game's period.
- We are currently involved in the planning for the Trial Cycle Race scheduled for 14 August 2011.
- Operational plans are being developed on a day by day basis for the Games period.

M1/Deansbrook viaduct, 15 April 2011

- A recent example of our effective incident management is the fire at Deansbrook Viaduct on the 15th April 2011. Significant damage was caused to the structure which required both carriageways of the M1 to be closed. This was just before a busy weekend in London with the FA Cup semi finals at Wembley and the London Marathon.
- The team worked 24/7 to install heavy duty props as seen in the photos to enable two lanes to be running in each direction by 15.30 hrs on the 18th April having progressively opened lanes over the weekend.
- Full carriageway availability was delivered by the Easter break.
- This was very high profile including frequent visits by Mike Penning Minister for Transport who congratulated the team for the fantastic job done in getting the Motorway opened.

Balfour Beatty Highway Service summary

In conclusion I will leave you with the key points.

Balfour Beatty Support Services Analyst Day
15 June 2011
Terry Woodhouse, MD, BB Living Places
Local authority marketplace

Terry Woodhouse

- Hello everybody, my name is Terry Woodhouse and I manage Balfour Beatty's Local Authority services business, which has recently been rebranded as BB Living Places.
- This business was formed in 2009 to focus on the substantial opportunity with Local Authority Outsourcing. What we intend to do with this presentation is to share some market information and also to talk about our approach to the market to date.

Distinct Local Authority market strategy

- Our business in 2009 was based on a pre-existing Balfour Beatty Local Authority Highways Term Maintenance and Street Lighting portfolio of contracts, which had been demerged from a Balfour Beatty operating company which was previously focussed on LA and HA Highways maintenance activities.
- In order to create a business which was distinctive to the Local Authority customer we focussed on ensuring that:
 - We optimised our cost of delivery to recognise the way that local authorities procure and the type of delivery models they expect to deliver. This helped improve margins, but at the same time create more cohesive operating relationship with our clients.
 - We also made sure that we had a market reputation for robust delivery and most importantly we understood the unique differences presented by individual customer's, rather than viewing that every customer had a generic set of highways requirements which were portable nationally – its this deep understanding that we describe as 'Customer centricity' and it is pivotal in ensuring that we create tailored offers for our prospective clients.
- Having done this we have very much focussed on rapid market share growth in the Local Authority Highways market and also to take on new local authority Highways functions when they are tendered for with new customers. As we shall see in a short while this part of our strategy has been very successful.
- The third part of our strategy has been to move into other - non Highways - local authority markets, through bidding more complex integrated contracts.

Highways and Transportation (H&T) market progression

- Looking at Local Authority Highways and Transportation in isolation, this pie chart illustrates the 2009/10 national expenditure within local authorities.
- Our primary market here is in Maintenance, where we have grown market share from 7.5% to 11.7% over the past 2 years.

- In addition, through integrated contracts, we have taken on new capabilities such as parking enforcement, asset management and design services to effectively grow the future market opportunity to the business.
- This market alone is extremely active, and we are currently actively pursuing Highways-related tenders with a combined pipeline value of £1.8bn. That excludes non-Highway opportunities which we are also pursuing.

Combined highways and street lighting market analysis

- Our success in the Local Authority Highways and Street lighting market, has moved us to a position, where we now believe that we are the fastest growing provider in the market.
- This success is illustrated in this bubble chart and whilst we are not currently the market leader, if we continue our current rate of progress, that position should be achievable in the near future.

Local Authority gross expenditure

- Now whilst we have discussed our positioning in the local authority Highways market, it is also pertinent to consider the other local authority markets that we are immediately addressing.
- What this slide represents is a 'stylized' typical local authority organisation structure, together with gross national revenue expenditures for each service. These figures exclude capital expenditure. The services and amounts highlighted in blue indicate those that are immediately addressable for us based on group capabilities.
- None of this stops us from expanding our reach with local authorities at a future point in time, for instance when our WorkSmart BPO capability set is more mature, there will be nothing to stop us targetting the other market areas in the corporate category indicated here.
- It is also important to note with integrated contracts in particular, many contracts involve local authorities commissioning services on behalf of other local public sector bodies such as schools, thus the real locally addressable market is probably much higher than the direct local authority specified figures indicated here.
- Thus in summary Balfour Beatty has very much outgrown its roots in the local authority highways market and is now targetting a much larger local authority services market in general.

Local Authority – market trends

- It has clearly been a very active 18 months within the public sector, with the policy changes inherent in a change of government to take into account and also the substantial impact of the autumn CSR.
- The latter will stimulate approximate 25% like-for-like local authority expenditure reductions over its four-year term, whilst the former will give rise to greater freedoms for local authorities.

- The combined picture now sees local authority tender activity at a historical peak, with no indication that this pace will diminish for the foreseeable future.
- In addition, new authorities are now tendering for the first time and more services are now being outsourced than at any stage previously.
- The evidence to date suggests that Balfour Beatty is well-positioned to capitalise on the opportunity that this represents.

Living Places order book progression

- This evidence is illustrated by this chart which shows our rapid growth in order book over three years. In fact, win rates have been better than 1 in 2.
- As you can see this has been driven by growth in our traditional Highways and Street lighting markets, but also in the new integrated contract markets which were a key part of our strategy referred to earlier.
- As well as this success in new contract wins, where we have had the opportunity to extend existing contracts, we have an excellent track record of being able to do so. Clearly this indicates the success of our client centricity strategy and also our ability to meet contractual commitments.

Integrator roles are increasingly required

- We spoken extensively about the opportunity with integrated contracts and it is important to expand further on what we mean by this.
- Within Balfour Beatty Services we have identified three main types of integrated contracts which are of interest. Two of these affect the local authority market with regards to transport and property.
- We are now seeing new types of Local Authority procurements in these areas driven by the catalysts indicated, where Local Authorities are now aggregating new combinations of services for outsourcing, with a view to realising more value and transfer more outcome and delivery risk to the private sector.

Integrator roles are increasingly required (2)

- To illustrate this point further, consider an example integrated transport proposition which might include the functions indicated in this slide.
- Balfour Beatty might previously have only provided services in the green 'delivery' functions, because of the development of the group over the past 2 years we now have a credible integrated offering in all of the areas indicated either directly, or in some instances through supply chain partners.
- Integrating transport-related services in this way enables risk transfer around outcomes such as congestion levels; killed and seriously injured statistics, or the condition of the asset.
- By integrating services in this way, local authorities can avoid the inefficiencies experienced between the handoffs between service providers and in house services.

Integrated contracts – market trends

- With regards to the specific market dynamics for each of these types of contracts, we provide some simple analysis on this slide.
- There is a definite trend towards greater aggregation of services, larger contracts and greater contract values.
- Contracts are transformation-led, which means that the private sector is responsible for substantially changing the way services are delivered over the term and perhaps being responsible for substantial investment to achieve these results.

North East Lincolnshire – initial £150m contract

- By way of an example of one of our recent integrated contract wins, the contract with North East Lincolnshire Council effectively includes both an embedded integrated Highways and Transportation contract and an integrated property contract.
- The real value in this contract to the council however is Balfour Beatty's commitment to regenerate the borough, through the number of houses that will be built, the number of jobs that will be created and other outcome measures such as the amount of inward investment that will be generated.
- For Balfour Beatty, the reciprocal value is the contract includes a range of new services that can then be traded with other local authorities, in addition the contract represents a local trading 'platform' with other public sector bodies such as PCT's or the local schools community.
- Our expectation is that the North East Lincolnshire contract will be the first of many similar integrated contracts being signed over the next few years and we are already bidding on others.

Balfour Beatty Living Places summary

- Balfour Beatty has evolved a differentiated strategy to achieve rapid growth in the Local Authority Market.
- Balfour Beatty is already enjoying considerable success with Local Authority Services Contracts and with an estimated 2011 order book of £1bn and increasing market share.
- Market Conditions are favourable to continue this progress.
- Integrated Contracts will become increasingly important over time and we are already well positioned in that market.
- Our immediately addressable Local Authority markets provide substantial growth opportunity, however there is further scope to expand our core offerings in time, which should enable us to continue our progress into the future.

Power - an attractive infrastructure services market

- Power is one of the Group's key verticals and one of the most significant in the Services area.
- In the UK, there are three main areas of interest:
 - Existing markets for T&D where we are market leader is £3bn plus substations of about £1bn
 - Extending that capability offshore is sensible and gives access to very large opportunities.
- Currently in Australia, USA and Indonesia and potentially Canada
- Having transmitted the power, how is it consumed and purchased is obviously highly important to our customers. We have the capability to manage and improve the way that is consumed in BB WorkPlace and Power Efficiency.

Power supply chain – Balfour Beatty focus areas

- Just talking through the value chain in the Power vertical, this slide gives a very good idea of why this is so important for the Group.
- Moving from left to right the mining sector is where Parsons Brinckerhoff (PB) are using their design skills. Obviously, the increasingly remote areas where the ore is extracted provides opportunity for access roads, power lines, rail, pipelines, etc.
- In generation, PB are probably the global leader as the owners' engineers and advisors. Here in the UK we have the relationship with Vinci for New Nuclear, and if you look at offshore, our overhead line project for SSE to take that power through Scotland is a £350m project which kicked off in January in earnest. An emerging area is carbon capture where our skills in gas networks will be very valuable.
- Engineering Services are active in substations, Utilities in T&D as I described and BB WorkPlace or Power Efficiency in the consumption end of the value chain.
- It is a great example of the theme I mentioned earlier in that we can address real opportunity in each of these sections of the value chain.

Power in the UK – Offshore wind

- Offshore wind is already very topical - more so post the events in Japan and our recent preferred bidder announcement makes us the largest investor currently in the UK.
- From a Services point of view, our onshore skills in extra high voltage transmission, cabling and substations gives us some valuable transferrable skills in order to gain a reasonable share.

- Obviously it is offshore, and a tough marine environment, so we do intend to develop any capabilities we don't currently have.

International power – Transmission & Distribution

- Another big opportunity of the order of \$300bn globally, although that number includes a significant proportion of the market which is not currently outsourced (e.g. China).
- We have the very scarce skills in this space both in PB and in Utility Services that are enhanced by market leading training centres in the UK and the Philippines.
- It is fair to say that barriers to entry are relatively high resulting in above average margins.
- Utility Solutions are currently active in these markets through United Group JV and National Grid in North America.

Demand side energy efficiency

- This slide covers some of the areas of expertise we have in Power Efficiency most notably in carbon management, energy procurement and efficiency.
- These white collar skills become very powerful when combined with blue collar ability to tune or replace inefficient energy consuming assets.

Managing costs in the public sector

- If you look at this slide for a typical NHS Trust, it shows exactly what I mean.
- In a world where actually the total budget deficit is already 15% - 20%, you can see how demand for solutions in this space will grow.
- Over time, these costs in running any large estate will rise dramatically and these curves will be pretty similar for most of our customers. Given an energy problem like an oil crisis in the Middle East or a delay in new nuclear generation for example they will rise even more sharply. To illustrate that, the energy spend for just BBW's clients is currently £1.5bn annually.
- Given the skills we have now we are very well-placed to meet that demand

Balfour Beatty Power and Energy summary

Hopefully I have been able to illustrate the areas in the power vertical that Balfour Beatty Services operate in – it is important to us, represents about a quarter of our revenues and plays really well to the Group strengths and capabilities. We are hence, well-placed to develop the opportunities I have described.

I will now hand over to James Janion to talk about this building in particular.

Balfour Beatty Support Services Analyst Day
15 June 2011
James Janion, Operations Director, N.O.C.
National Operations Centre

James Janion

Welcome ladies and gentlemen to Balfour Beatty Workplace and our National Operations Centre. It is a pleasure to have the opportunity to showcase our facility here and demonstrate how our delivery model is central to supporting the ambitions and growth of our business.

The centre was opened in April 2010 and supports BBW within the UK utilising our CORE Operating Processes to deliver Service Desk, planning and work cost administration functions whilst providing technical support and Business Intelligence. This means we handle the initial contact with the customer, right through to completion of the task and billing. The operating principle deployed here is to real time report and capture data accurately every time.

Operating model

Our operating model looks like this. We are a single point of contact for our customer and we utilise the latest technology to assist in this end to end process. A customer can place a request through three mediums, telephony, Email or a portal. In order to ensure consistency of information we have developed a contact screen specific to each contract. So when an individual telephones in, the system is able to recognise which contract the caller is from and load the appropriate information onto the screen for the service desk agent. The agent is then able to take the appropriate details, drill down to the specific service line of delivery and provide a response time in accordance with our contractual obligations. The system was set up so that we record the same information every time, thus making our intelligence more robust and consistent.

Our telephony software also ensures the work order is sent to our asset management system and is picked up by our planning department. As a matter of course, when every task is logged the requestor will receive a notification email identifying the reference number and the task details. Once the task has been passed over to the planning department they will follow clear rules on work scheduling, ensuring each and every operative has a plan to the day and that the plan is followed. They will allocate the task based on response times, geography, and skill sets. Once the plan has been finalised the job will be despatched to the field operative primarily through handhelds, although telephony and tough books are also utilised.

The planner will review the progress of the schedule throughout the day escalating any potential breaches and rescheduling where appropriate. Our systems talk to each other throughout the lifecycle of the task providing real time updates until the job is done. Once complete on the system an email will be sent to the requestor advising them the task has now been closed. The work cost team will now pick the task up and ensure all appropriate costs have been captured and move the task either to closed or prepare it for invoicing.

Whilst the service desk can operate across a multitude of clients the planners are dedicated to a specific contract as the need for local knowledge is paramount in planning effectively and building relationships with the operatives in the field. The planning team is supported by our Asset Manager who reviews planning schedules, provides technical know-how and trains operatives out in the field.

Working closely with our field based teams it is essential to understanding our clients requirements; recently during the Royal Wedding we ensured we had additional resource available to handle any surge in calls during such a critical broadcast as our centre supported three different contracts in BBC, Arqiva and the Metropolitan Police, who all had an active involvement in the Wedding and could potentially require support. This was evidenced by a 40% increase in calls on the day demonstrating how our prior planning allowed us to scale the operation according to demand.

Supporting continuity of service

Over the last 14 months the centre has grown from an inaugural two contracts to 22. We presently operate utilising 110 staff members with the capability to increase to full capacity at 200. We support the business predominantly in the corporate, healthcare & education markets dealing with complex and critical environments, from ensuring broadcasting has 100% uptime to providing a lifeline to an employee stuck on the side of the motorway in the small hours of the night with a puncture. The total value of revenue this centre presently supports is £140m per annum with growth plans to increase this in excess of £200m by the year end. The centre operates 24/7 all year round and has full contingency should it be required including hosted environments for our IT systems and fall back site for staff to operating out of. We understand that continuity of service is critical to our clients and that it is imperative that our model is robust.

Supporting consistency and rich asset data

Our belief in all that we are doing is to deliver the service on time and to accurately capture data. If we record accurately what we do every time we will have consistent data to work with. If we follow the cycle through, consistent data captured allows us to interrogate the information and make informed decisions driving productivity and

becoming a much more efficient organisation. This not only has an impact on the service the client receives but leads to organic growth, a solid reputation in the market place and an improved margin.

Every work order, be it planned or reactive that is processed here, provides us with valuable information around performance of people, process, sub contractors and assets. Such information enhances our strategy with our client as collectively we understand how their estate works and how their assets are performing. It also helps formulate where investment is required and reduces wastage.

Outside of operational performance the data captured supports our bid strategies. We are able to understand how different types of contracts operate, the cost impact of delivery and the benefits a client can receive making us much more competitive in the market place.

Management information dashboards

Once we have captured this data we are able to present it in multiple formats. Typically we record the following areas of performance from Service Level Percentage completion rates, call handling statistics, labour efficiency, tasks available for invoicing and our customer confidence score. This data allows us to trend contracts, compare across sectors, identify quickly where we need to focus attention and also allows us to manage the efficiency of our resource. The dashboard displayed here is not held locally, it is sent to all levels of management up to the board level so again ensuring absolute visibility of our performance.

Last month alone was our busiest month to so far, our planning team scheduled, dispatched and closed 17000 work orders whilst we answered in excess of 15000 calls with an answer rate of 96%, an exceptional performance in this environment and one that we are proud of.

Supporting growth

As mentioned earlier the centre has room to grow and over the coming months of 2011 we have key transitions coming up including developing our operations with North West Fire and Rescue who are introducing sites as and when they are built and continuing the organic growth with the BBC; the latest additions being Media City and BBC Wales with BBC Bristol due to come online within the centre in the next month. Our Energy Services division helpdesk will be located here and we are also working with our colleagues in Balfour Beatty Plant and Fleet to integrate their helpdesk which will guarantee a minimum rate of call answering in line with our present performance. We are also working closely with our bid teams across Workplace on new opportunities such as Alder Hey Hospital, EDF and Network Rail.

Supporting improved margin

Our processes offer the necessary resilience required and allows us to deliver a consistent and professional approach at any time of the day or night. Clear process with a clear metric to monitor ensures we are able to be more efficient and effective and remove wastage. The centre is continuously learning and working towards a leaner future for both BBW and the client.

Furthermore the benefit of our operation is that each contract offers different challenges and with every development made on any particular area this can be rolled out across all contracts adding immediate benefit with minimal investment providing natural continuous improvement and enhanced customer experience. We are able to deliver to diverse estates and as a client's needs change so too can ours. We provide robustness and consistency delivering the right way every time and when we come to mobilise a new contract we are able to immediately deploy our processes and skills to ensure the contract is successful from day one.

Our aspiration is to be seen as the face of our organisation, we are the first point of contact between our customers and pivotal to ensuring the request is understood and then delivered in time. As you can imagine such a centre becomes critical to service delivery for the business and our clients.

I would now like to ask you to follow me out on to the floor and I will demonstrate what all this looks like in reality.

<p>Balfour Beatty Support Services Analyst Day 15 June 2011 Duncan Magrath, Chief Financial Officer Delivering efficiencies</p>

Duncan Magrath

I am going to cover two topics with you today. Firstly I am going to outline the progress we have been making around our cost effectiveness agenda, and secondly a change in the management of our plant & fleet business, and consequently therefore a small change in our segmentation.

Improving operational performance and cost-effectiveness

One of the five clear objectives we laid out in the March results presentation was to "improve operational performance and cost effectiveness". This was one of the levers that we highlighted in our Investor Day in November that we have to improve or underpin the margins within our business.

Hopefully we have demonstrated to you how the investment in this National Operations Centre will help drive efficiency in our Support Services Division as we win and service more contracts from this centre.

In the UK we have a combined programme called Platform for Growth which covers Shared Services, Procurement and an Oracle system rollout, all of which have a degree of inter-dependency. Given the scale of the Construction Services UK division, they will benefit to the greatest extent from this program, but in fact all the divisions in the UK will benefit to at least some extent.

An update on the UK Shared Service Centre

So a quick reminder on the rapid progress we have made since the announcement of the creation of a back office Shared Service Centre last August. Since then we have recruited 135 people into the centre, nearly all external hires. We have the physical space for over 400 people, and believe that this growth could largely be managed by the existing team with little extra management resource. We started processing the first transactions in March this year.

The centre has been set up as part of a separate operating company called BB Worksmart, with service level agreements agreed with the individual operating units.

Benefits the UK operations

The scope of the centre covers transitional accounting, payroll and supply chain management and procurement.

The initial operations that have moved there have been Opcos who are on our existing Oracle system. We are in the process of upgrading this system to a new version on Release 12. Ultimately everyone will be on the new version, both existing Oracle users and those currently on other platforms. I have put some statistics down here under current status. You can see the scale of the operations already. The transfer of the processing and the Oracle system make this quite a complex programme, and consequently we are carefully planning the rollout, which will take us through to early 2013.

The costs and benefits of the programme are as previously announced, but just to give you a brief recap.

The costs for the program are for £25m of setup costs and an incremental £10m of IT costs to cater for the Shared Services environment over and above that which we were originally planning to spend.

The procurement part of this programme is about placing greater focus in leveraging the scale that we now have in the UK. The procurement of indirect costs, such as office supplies, utilities etc., is being performed and managed from the Shared Service centre. Direct cost procurement however is managed within the divisions and operating units

but with a greater coordination than before. The Service Centre will, however, will ultimately help track the data and supplier information for all spend as it will be held on one system and maintained and operated from one site.

Estimating how much of the procurement savings flows through to the bottom line is very difficult. With the range of contractual structures we have, some of these savings flow back to customers. Some of the revised cost prices also inevitably form the basis of the costings for future work. This will lead to us being more competitive and increasing market share, but will be difficult to see directly on the bottom line. However, having said all that we anticipate that about 50% of the procurement savings across direct and indirect expenditure should be retained by us.

Balfour Beatty WorkSmart – part of Support Services

As Kevin's first slide this morning showed you Balfour Beatty Worksmart reports into Kevin as part of the BB Services Division.

While we have received external support in the feasibility stage and detailed planning, we are now largely self-sufficient, particularly with the transition teams. The task of transitioning processes from one organisation into another, is something that our front-line support services operations do all the time, and we have populated our transition teams with people experienced and capable in this area. You saw Transformation Certainty as one of our skill sets on Kevin's slide earlier. This project also enables us to increase the size of our internal capability in this area, which we will be then be able to deploy into new contract wins as they arise in the future.

We have set up the centre to make our internal processes as efficient as possible, but we have also allowed for the possibility that there may be aspects of the Service Centre's capability that we could offer to external customers as an extension of contracts. We will not be a standalone offerer of Shared Service services, but we do think that as part of an increasingly wide range of bundled services from, say, Local Authorities that this maybe attractive. You saw this on one of Terry's slides earlier. I stress that this would be a secondary objective and potentially a few years off so don't rush to include any upsides into your models.

We may schedule a visit to Newcastle sometime in 2012, although I suspect that you have all been around many similar types of operations, but needless to say, the service mentality, use of data, and process efficiency focus you have seen here today are also the fundamental drivers of our Newcastle Centre.

Reporting change - Plant and Fleet Services

Turning now to one of our operating units, Plant & Fleet. As we have thought more about our approach to Support Services, and, in particular, the common characteristics of service delivery around repetitive tasks, we have reviewed how this business should be best managed internally. Up until the end of 2010 it was managed within the Rail part of our Construction Division. Given that BB Worksmart and BB Workplace are

providing internal Shared Services to the BB Group, it seemed logical to bring Plant & Fleet under the same divisional management. Unfortunately a consequence of this under IFRS8, is that we need to move the reporting results of this unit out of Construction Services and into Support Services, and restate the comparatives. I know that you all hate changes to your models, so apologies for this, but I hope that you direct your annoyance at the Accounting Standards Body and not at me in this instance! It is perhaps a part of the Group that we have not really discussed much before, and so I thought it worthwhile giving you a bit of background on the business.

Over 90% of its revenue is from internal customers. It really has two parts to it. A plant business that provides plant to the operating units in both the Construction and Support Services divisions. The plant is often specialised, in contrast to commodity plant which generally is hired in from external plant providers. The reason for specialist plant being in house is that there are potentially competitive advantages we can generate by modifying or introducing innovations that can improve productivity and health & safety too.

The fleet part of the business, which generates the majority of the operating profit, provides cars and small commercial vehicles across the whole of the UK group. Another reason for including this business in Support Services is that, on the fleet side, again there may be an external angle for some of our customers, for say co-sourcing fleet deals or maintenance agreements, something that Kevin and his team are looking into. The internal charging for both plant and fleet is on an arms length basis and is constantly benchmarked against external comparisons.

Impact of the restatement

Given the change in reporting from 1 Jan 2011 we have moved the presentation of this business from Construction into Support services for 2011.

You have a more comprehensive hand out on the impact of the restatement but essentially the most significant impact is the shift of £11m of profit from Construction into Support services.

As I noted earlier, the charging has always been on an arms length basis, so the profit has always been shown in that Opco even though the inter-company revenue has to be eliminated between segments, which means the ratio between the revenue and profit restatement looks a bit odd.

Efficiency initiatives summary

So to summarise:

We have made good progress on our cost initiatives, with cash and benefits as previously announced.

BB Worksmart and Plant & Fleet Services part of a co-ordinated Support Services offering.

Movement of Plant & Fleet has resulted in a minor restatement of Construction & Support Services segments.

I will hand back to Kevin to summarise the afternoon for you.

<p>Balfour Beatty Support Services Analyst Day 15 June 2011 Kevin Craven, CEO, Balfour Beatty Services Wrap-up</p>
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Opportunities

So in wrapping up before we take questions, I just wanted to emphasise that we are pretty positive about the environment and opportunities we see in front of us, and the slide captures some of our aspirations, and more practically our next steps.

Summary

So in summary:

- We have the skills our customers want.
- We are – as you can see here today - making investments to ensure that those skills are market-leading and relevant.
- We are firmly established in our market supporting key customers in the regulated and public sectors and can see reasonable organic growth for us.
- We will add capabilities where we see them enhancing existing ones or customer demand.
- We believe our offering is strongly differentiated in this market, and that our focus will bring us results.

Thank you, we will now take any questions you might have.