

### ***Power Generation Vertical***

#### **David Rutherford, Power Director, Parsons Brinckerhoff**

Good afternoon. My name is David Rutherford; it's a pleasure to be with you this afternoon. I have a history of some 27 years in the power industry, five years with Parsons Brinckerhoff and 22 years with a utility company prior to that.

Today I'd very much like to build on some of the strategy work I have been doing in the power generation vertical area. As you may have recalled Andrew explained some of our strategic threads in the generation strategy area earlier on; the first of these being to strengthen our professional services activity around the world and to leverage our relationships with global clients.

The second thread of our strategy is very much geared towards taking a much larger share in the tier 2 small scale, less than 100 megawatt EPC marketplace. The third thread of our strategy is associated with increasing our capability in the tier 1, greater than 100 megawatt EPC generation marketplace.

Now what has got us to this point of developing this strategy has been a real understanding of the types of projects and skills we have within our business. We have for many years undertaken a wide range of activities. But specifically what I would like to drill into is the second strand of our strategy, which is to do with the tier 2, sub 100 megawatt EPC marketplace. In this area we have real strength and capability in understanding the underlying technology, we know how to build these projects, we know how to manage the risks and we know how to deliver the projects successfully. We have conducted a number of these projects over the course of the last ten years in the US setting.

So recently a good example of one of these projects would be the Coolidge project which is demonstrated behind me here. It's a gas fired power plant in Arizona in the US. It was a project that came to us where we undertook the role of engineering design partner, working in partnership with a procurement and construction contractor. We had a 25% share in a \$200m project.

Typically this type of project is used as an islanded power plant solution or a peaking plant solution for end users or utilities. For this type of project we generate margins that are very often in excess of 5% and we're confident that as we look forward in the marketplace, these margin levels will be able to be sustained. We have typically completed one or two of these projects per annum and our intent in terms of looking at the marketplace we see, understanding our skills and our footprint is that over the next five years we should be able to complete approaching ten projects per annum.

Now what has given us that energy to step up our capability in this space is the work that I have led with key managers around our business over the course of the last six to nine months where we have truly got an understanding of our capability. We've built a global vertical management capability which now has sight of a pipeline of projects around the world that attracts our interest and we are now actively managing these projects from a pursuit team which has got some constant and certain definitive strategic approaches to it.

One of the enabling pieces that has helped that come to life has been the fact that we have put in place some knowledge sharing and collaboration tools to help our key managers around the world interact and pool collaboratively together to address this marketplace.

Now perhaps that might seem a little bit theoretical, but to put it into a very real sense, George mentioned a project in Western Australia called Karratha, Karratha is a project which is very much built around the style of the Coolidge project here. It's a project that we were commissioned to undertake in August of this year and it will be completed later this month. It's a very real, living example of how we have taken technology capability, delivery capability, risk management capability from our historic US business and translated that into a geographic region, being Australia, one of the regions where we've got real strategic interest for the future.

The other exciting dimension of this is we can see a very strong pipeline of similar projects in Australia. And indeed if I just take this example of the tier 2 sub 100 megawatt EPC marketplace and roll that up with our other organic growth threads in our generation strategic approach, we can really see that we can grow our market presence from something like £500m per annum presently to £1bn per annum over a five year journey. So we're really very excited about the possibility of bringing all of that to life as we start to engage upon this strategy that we have mapped out.

I'm happy to take any questions or give any further illustration around any of these points.

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**Question**

We saw a £303m revenue number in the slides and did you say 500 million dollars or 500 million pounds?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

500 million pounds presently.

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**Question**

Okay, so am I looking at the right one here, £303m? What's the difference between the two, £303m and £500m?

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**Andrew McNaughton, COO and Deputy Chief Executive**

Yeah, that's the professional services stream, so if you add to that the delivery capability as well. So if you look at those competitors that are ranked along there, we said we were a top ten player in professional services, so if you add that to the current delivery capability. So what you'll see is an expansion, and particularly what David's outlining

there, most of that, the bulk of that expansion will come in downstream delivery projects.

So what you see is the professional services delivery capability at £300m, so there's roughly approaching £200m of delivery capability that we have at the moment. That's what we're looking to step up to, including the professional services, up to a billion.

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**Question**

Okay, so the 5% margin, greater than 5% margins that you said - I mean again I'm just trying to square that with the sort of 6 to 7% I think that Parsons is targeting. Is that including the professional services then that 5%, if it's a blend of I don't know, 6 something, or 7% in Parsons and 3% for the construction side?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

Yes, I mean specifically what I said was we do see margins in excess of 5% on EPC projects as they stand alone. Typically across the professional services piece our margins are probably a factor of 2 to 3 above what we would see in the construction and build space. As we look at EPC projects that could be a factor of 4 to 6 above what the construction and build space is.

Clearly I'm not putting a number around what our sort of margins are on this type of project because it is somewhat sensitive, but it is quite interesting and above the 5% that we have quoted.

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**Andrew McNaughton, COO and Deputy Chief Executive**

And what we're intending to do with the 5% is to put a base there, the connection therefore - as David is alluding to is it's in excess of 5. We're putting that as a base frame just to give you some guidance as to what the overall market would deliver. The 6 to 7 refers specifically to our professional services business across the whole range of its capabilities.

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**Question**

Of the £500m of growth which geographies - where does that sort of split across the different geographies do you think?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

Presently the split on that is between the US, Middle East, UK, Australia and South Africa. As a gross simplification that would be where the threads are.

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**Question**

And where does nuclear feature?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

Nuclear is not one of the technology areas where we have got great strength and depth. What we do have is we've got periphery, or support capability which can really support the nuclear industry. So all the mechanical engineering knowledge, electrical engineering knowledge is something that we would be feeding into nuclear programmes where they emerge.

We've taken the view that it's not the time, or right for us to be heavy in terms of a nuclear capability. Clearly civil engineering, construction capability can support any new nuclear build programme and we're placed to participate in any of that as it plays through. But very specifically we are not in the forefront of nuclear technology.

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**Andrew McNaughton, COO and Deputy Chief Executive**

I think it's important I'm going to emphasise that in terms of the technology, because clearly the kind of contracting that we're talking about here where we're taking engineering, procurement and construction risk, in other words we're putting the wrap around those kind of projects, there's absolutely no way that we're going to do that on nuclear plant, that's just not what we do.

So what we're able to do and we look at the kind of skills in whether it be gas, coal, geothermal, those kind of ones where we understand the technology we're able to bring together the construction delivery and the design engineering. So those are the ones we're focusing on an EPC basis.

In the nuclear area you've seen the work we've already been doing in the UK around construction, we're still involved in bidding for civil construction elements through Hinkley and we're also pursuing where the follow on from Horizon goes. But as David said that's particularly in the civil construction area, not in this kind of area where we're saying here's a whole plant and this is how we'll deliver it.

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**Question**

Can I just ask on the competition base how you - do you think this model differentiates you from the competitors and how do you see them developing in this market as well?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

Absolutely as we look at this space, in particularly tier 2 sub 100 megawatt market space, what we can see is a lot of local regional players who operate in the local generic markets. What differentiates us is consistency of a professional approach in terms of the experience set that we have had, the ability to manage risk in a very different way to

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some of the small local professional players and also to integrate a supply chain in a flexible way that actually delivers these projects.

So it's all about the management of risk, our technical ability to manage that risk in a consistent way for marketplaces that do not have as mature an infrastructure as what we can bring to bear on them.

So we do actually think we are quite a differentiated player to some of the existing players in the markets where we've got an interest to develop presence.

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### Question

Can I just follow that up, would you say that, because you mentioned the four markets that you particularly look at, would that be across all those four markets where you'd say that predominately it's kind of local and regional players that you will be competing with or are some more consolidated than others?

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### David Rutherford, Power Director, Parsons Brinckerhoff

In this sector, in that market slice of sub 100 megawatts across these geographies yeah.

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### Andrew McNaughton, COO and Deputy Chief Executive

I guess one of the differentiators for the sub 100, when you go larger very often you will have seen the equipment manufacturers, so the Alstom, the Siemens who actually step up to be the lead contractor in those. When you drop to these, the kind of technologies here, they're not the kind of thing that again the technology manufacturers would want to be taking on the delivery risks for.

And equally when you look at local players, things that owners often have a struggle with is local, regional players then don't have the capability to stand up and take the equipment procurement and the delivery of the design and engineering. So that's why we see in this area it does give us a differentiator and the engagement we've had with a number of customers around the world in terms of the attractiveness of the model we have, it's showing some real encouragement in the pipeline.

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### Question

Could you talk about UK gas and whether you see an opportunity there?

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### David Rutherford, Power Director, Parsons Brinckerhoff

I think UK gas is fascinating. Undoubtedly there will be a play for new gas in the next generation of build in the UK, where we are following the EMR announcements of last week, £110bn allocated to the energy sector, clearly a slug of that will go to gas. The investors will be carefully working through is it going to be real and is it going to be tangible and how fast can these projects come to realisation?

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We know what the pipeline is for the projects; we're following it very, very closely. There will be new gas in the UK; it's just a case of when. And over the next two to three months we will see the investment community decide whether this is a good space for them to be spending their capital.

Technically the view is that there needs to be new gas projects built by 2017 or 2018, to cope with the coal fired fleet coming off and we just need to see if the investment signals have been strong enough for the capital to follow what the requirement is.

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**Question**

Do you think that will be an equal subsidy for old gas and new gas?

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**David Rutherford, Power Director, Parsons Brinckerhoff**

I think there will be a different subsidy.

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**Andrew McNaughton, COO and Deputy Chief Executive**

Okay, well I think the format is you guys are going to stay here and we're going to leave and somebody else will be in to take on one of the other breakout sessions shortly. Okay, thanks.

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**David Rutherford, Power Director, Parsons Brinckerhoff**

Thank you.

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### ***Accessing South Africa***

#### **Ian MacLean, Director, Parsons Brinckerhoff Africa**

Good afternoon my name's Ian MacLean and we have 15 minutes together to discuss Balfour Beatty's activities in South Africa and the potential for growth in a developing country.

In order to get a discussion going I'd like to tell you about some of the interesting developments that we're seeing in the infrastructure market in South Africa. I'm responsible for Parsons Brinckerhoff in South Africa, which is the only Balfour Beatty operation in the region. We have 370 people, and the majority of what we do is in the mining and power sectors. We've been doing business there for almost 30 years.

Our strategy is simple and it's three building blocks, the first is to strengthen and grow our professional services business in South Africa. The second is to do exactly the same in other countries in Southern Africa. And the third is to leverage our PS presence in South Africa and use wider Group capabilities to take selective delivery risk.

It's this third building block that we're going to focus on this afternoon and we're going to use our most significant project to give you an insight into our competitive advantage and the scale of our long term opportunity.

The picture behind me is of Medupi which is a 4800 megawatt coal fired power station. It's the fourth largest of its kind in the world. This and its sister project Kusile are essential for sustainability of the power supply in South Africa and there's a clear line of sight between the successful completion of the project and an improved quality of life for South Africans.

It's a massive project with currently around 15,000 people on site; we're the owner's engineering and construction execution partner in a joint team with Eskom who are South Africa's power utility. There are around 400 people in the integrated team and 180 of them are employed by Parsons Brinckerhoff. Our relationship with Eskom is as old as our business and we work with them in the construction of the Majuba power station in South Africa in the '80s.

South Africa as most developing countries, is pushing very hard for localisation, however they need international capability. Eskom is in exactly the same space. It's 20 years since Eskom has built its last power station, but it needs to be seen to be employing local people. The pressure to employ locals drives high levels of employment and inefficiencies. So a key need for Eskom is to have a partner like Balfour Beatty who understands large construction projects and can provide some certainty of cost and delivery outcome.

Our particular strength and competitive advantage is in the commercial management of the project where we've been able to deploy skills from other Balfour Beatty infrastructure projects from around the world and these skills have earned huge respect from senior Eskom management. They see these commercial skills as like gold dust.

## Balfour Beatty, Investor Day - Accessing South Africa Breakout Session

Our strategy in South Africa is to choose a strong position on Medupi to grow into future Eskom projects and other infrastructure projects. We're now talking to Eskom about the best contracting strategy for their next coal fired power station where they need to maximise the number of local subcontractors, but minimise the number of packages they have to reduce the interface with management. This work is going really and we're able to bring the experience that we have from other parts of the world to come up with different contracting models for the project.

So there's real opportunity for us to be part of the next big Eskom construction project and we're talking to them about opportunities to do other things with them like build transmission lines.

On top of this there's a wider infrastructure opportunity in South Africa which is being coordinated by the Presidential Infrastructure Coordinating Commission, reporting to the deputy president.

The PICC as its now referred to has close to 350 separate projects into 18 strategic integrated projects which have the full breadth of infrastructure including power, rail, and water. The PICC has not only looked at the most efficient way of packaging this work, but has also looked at the enablers to deliver the infrastructure. One of the crucial enablers is skills availability.

Eskom has a leadership position in terms of skills and has been appointed as programme manager for the overall PICC and also the first of the 18 clustered projects. If we look to the numbers behind this, Eskom currently has around 800 project managers and they hire another 600 projects managers from companies like ours. They estimate they will need 3000 project managers to deliver their core business projects over the next five years, with a similar mix between internal and external people, in other words our opportunities doubles.

If they're asked to deliver the broader infrastructure within the PICC they estimate they need to more than double that again to 7000 project managers. I'm convinced that we can take the Medupi model of how we work with Eskom and use that not only for the Eskom project, but also on other infrastructure projects across South Africa.

So I think I'll probably just stop at that point and see which way you want to take the discussion, but really that's the scope of our opportunity in South Africa.

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### Question

How scalable is this opportunity, obviously with the staff you've got at the moment, you've clearly had some major contracts you worked on, as you look going forward is it a case of being able to hire incremental staff organically, do you need to do further acquisitions, I mean how do you think down the line in terms of what outlay is needed to really meet that growing demand?

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

So if we take the power space itself specifically, about deploying the Medupi model in the way I've described, we have got access to people in the UK space, in the Middle East, in the Far East and we're actively bringing people on board to bulk up the number of people we have.

Clearly there are limits as to how many you can onboard without diluting the culture that we have in the company, the way we work, etc. But we've shown really good progress in the past six months of increasing the number of commercial people. That's particularly because the project at the moment is at a stage where we're coming through to commissioning of the first unit. And the commercial issues are really starting to build now with regards to the first of the six units being commissioned.

So that's why we've now had this volume demand from Eskom to bring more and more commercial people on board. And we're bringing people continuously into the project itself. So, so far so good in terms of bringing people from other parts of Balfour Beatty and indeed from the general marketplace.



**Ian Tyler, Chief Executive**

I think it's fair to say that we wouldn't particularly see South Africa as something where - a growth by acquisition was critical, the ability, as you say, the ability to get the resources, bearing in mind that we have a critical relationship with Eskom really is the key issue and we probably wouldn't solve that through acquisition.



**Question**

Which of the other international majors were bidding against you on Medupi that you know about?



**Ian MacLean, Director, Parsons Brinckerhoff Africa**

There are different positions in terms of competition. On Medupi itself there is no competition for our current role. We are appointed as the owner's engineer, that's our former role throughout the length of the project. And it would take a big problem to dislodge us from our current position.

On Kusile we've got Black and Veatch who are our competitor in the power generation space. But knowing that our role, which is an established role, it's a fixed contract, a two year contract which has rolled on on a rolling basis.



**Ian Tyler, Chief Executive**

It goes back quite a long time.



**Ian MacLean, Director, Parsons Brinckerhoff Africa**

Yeah, we've been there since 2008.

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**Question**

You mentioned the rest of Africa and I think a year ago, Ian you talked about Tata and the MOU and how that could help unlock that. Could you give us an update of where we are with Tata?

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**Ian Tyler, Chief Executive**

I can, we now have an MOU, which is good progress. We are focusing at the moment on the development of the business internally in India. That's because - I mean the question of Africa was very much where Tata at that point were looking at going, and Tata Projects in particular. At the present time we're focusing on the infrastructure within India itself. Both - and a lot of that is in - the major part of that is through the power sector, the transmission sector.

It is, as most things are in India, Tata are great partners, but the whole process is agonisingly slow as would expect. And we are looking at a number of bids where we will get a real feel for the market. But the focus on that particular relationship for the moment is within India, which from our point of view is a good thing and we will probably end up looking elsewhere only after we've really got it going, which I suspect, again, isn't going to be - it's not something that happens in a great hurry, because things rarely happen in a great hurry in India.

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**Question**

A follow up if I may, on Sub-Saharan Africa, presumably the bribery and corruption issues are quite difficult to deal with.

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

We're extremely selective and I think the other issue with regard to the other countries in Southern Africa is that increasingly competitive, a lot of - in the professional services market there are a lot of international players coming in there. So the push is to be much more focused in terms of where we aim to play and being much more intensive with regard to how we're going to play and work at how we're going to do that.

And interestingly Mozambique is probably the next most active market for us, given the mining opportunities. We've got a large project opportunity with ENRC in Mozambique, with a considerable coal reserve. And we're working with them on that. So yeah, very selective and if anything at the moment the strategy cannot be to continue to work as a local business just going and doing in a scattergun approach, for projects throughout Southern Africa we have to be much more focused and targeted. And through that intimacy of the relationship with the customer you certainly get to know who you can trust and how you can work with them.

**Ian Tyler, Chief Executive**

It's fair to say of course that the PS + strategy minimises the risk - or minimises the extent to which you come into contact with that element of the market. It would be very difficult to see how we could operate downstream in South Africa at the present time. It will change over time, but that's something that we wouldn't want to move into for a number of reasons, but that's most certainly one of them. In the professional services space, you're to some extent above that element in the market.

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**Question**

Can I just roll that out to the rest of the world then, places like Brazil and India, to what extent are you willing to get into delivery in those markets?

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**Ian Tyler, Chief Executive**

The same point applies; I mean Brazil is a great example of that. One of the things that will slow us up in the market is ensuring that we are absolutely clear of corruption. The one thing about Brazil that Brazil has in its favour is the largest part of the infrastructure market is in the private sector. Ex government industries like Petrobras and Vale but it's in the private sector and corruption in the main is a function of public sector work if you just look around like that around the world.

So Brazil actually has a lot going for it in terms of how we might play in that sector, because the private sector market is - we judge it to be a lot more free of corruption than the public sector market.

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**Question**

You mentioned a couple of things there, potential power station, transmission lines, infrastructure, etc, can you talk about the tangibility of these projects on a timeframe, when do you expect to start to hear on some of these other projects, because obviously this is a big one, but to grow the business when we would really expect to be on those other things?

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

So we talk about the PICC itself, the infrastructure programme Eskom have been appointed in the past two months as the programme manager for PICC in total and the first of the cluster projects. Their advice - they've asked the question, how can we help them, support them in terms of delivering their responsibilities in each of those areas? And February time, post the long break in South Africa, post the state of the nation address in February, we should get into a conversation with them about the particular opportunity?

The next coal fired power station is somewhat more difficult, at the moment there's been an agreement and authorisation to procure the land and carry out the environmental

investigations on the site. It's been kept at a fairly low level within the country, because there's a lot of political issues with regard to coal versus gas versus nuclear. But the site is there and the plans, development plans are being drawn up in terms of how they would contract. So it's possible that it would come to market for the main players in probably 12 months' time.

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**Question**

Sorry just related to that, even that you're at the PS level rather than anything else, would you assume that if that happened that you'd get on the contract if you were successful within that 12 months?

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

Yeah, I mean we are currently providing advice to Eskom about the contracting strategy, so we're actually already in that position. But in terms of where that gets to depends upon others closing there.

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**Ian Tyler, Chief Executive**

We've got two minutes apparently I've just been told.

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**Question**

I think the Great Karoo is supposed to be one of the potentially the largest shale opportunities in the world and yet there's a distinct lack of water. Is that an opportunity, or is that too far out and too aspirational?

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

I think it's an opportunity but I'd share your view it is too far out at the moment. I think that the attention is going to go on to other parts of the world because of the restriction of the availability of water in the Karoo. Although in South Africa it's starting to gain momentum in terms of interest, in terms of investment interest. And I think Shell is very much involved in that.

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**Ian Tyler, Chief Executive**

One thing I would say about the PS strategy, there are many aspects of it, one aspect is of course that we will tend to be in projects at a much earlier stage, maybe at a relatively small level, as opposed to on the downstream side when of course it has to be much further down the path.

Anything else? Right, thank you very much.

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**Ian MacLean, Director, Parsons Brinckerhoff Africa**

Thank you.

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***Demonstrating business model flexibility in Investments***

**Sandip Mahajan, Finance Director, Balfour Beatty Investments**

Good afternoon everyone, I'll just introduce myself, I'm Sandip Mahajan, I'm the Finance Director, Balfour Beatty Investments in the UK. I've been in that role since 2010 but I've been with Balfour Beatty since 2005 and in the previous time I was structuring and financing the projects in our PFI equity portfolio, including the M25.

Today I want to talk to you about the poster in the right hand side over my shoulder and how we're demonstrating the flexibility of our business model and applying our capabilities to new sectors and geographies through our expansion into the power vertical.

Now this has opened up a significant amount of opportunity for us, and this is welcome for us given our expectation that there will be a decline in social infrastructure projects which has been the mainstay for us in the last few years, over the next few years.

Today we're going to focus on our growing portfolio of waste to energy projects and how our capability has evolved to allow us to access these opportunities. We'll talk about four projects, each of which is about £100m to £150m in capex size just to give you a sense of how big they are.

So our first project, show case project is Essex Waste and this was the first win in this sector for us and this was achieved by combining our financing and construction capability with our partner Urbaser who is an experienced contractor in this market. Essex is a biological treatment plant and it converts waste material into inert matter which can be landfilled, or into a solid fuel which can be burned in certain types of burner. We achieved financial close in May 2012, we've since received planning permission and we're expecting construction to start just into the New Year.

I think this project shows our capability to develop sophisticated contractual and financing arrangements and to manage complex engineering risks for our clients. The rate of return for this type of project is in the 13 to 14% range which would be in line with what we'd expect for a complex availability PFI and that's as compared to more like 11 to 13% for a social infrastructure type project.

We were able to repeat a win in Gloucester Waste with the same team, with the same partner. And this is an incineration based waste treatment facility and in this project there is an additional element of an electricity generation as an output and we offset the revenues associated with some of this from the availability payment. We're expecting financial close hopefully in the next few weeks, with returns on this project somewhat higher than Essex with the additional electricity generation risk at the 14 to 15% range.

Now the skills and experience we gained on Essex and Gloucester allowed us to extend this concept and our skills in this area into merchant waste. And in this case the third of our projects on the bottom left hand corner is Brigg in North Lincolnshire. Brigg is a straw fired plant; it takes waste material, straw, and burns it to convert into electricity.

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Now this is not publicly procured it's a privately developed project and it takes advantage of what is effectively a spare waste product.

So in this case Balfour Beatty again applies its financing and structuring skills alongside our engineering presence in the EPC contractor to progress this project along. We expect financial close in the first quarter of next year and with the additional development risk, because we're developing this project from scratch we expect more like a 15 to 16% rate of return.

Finally and most exciting is the ability to then take what we've learnt on all three of those projects and apply that internationally. And in this case we've teamed with Parsons Brinckerhoff who is our local presence for Balfour Beatty in Australia and we're in the early stages of assessing a biomass project in Australia.

And in this case we're able to simply apply the lessons we've learnt on those previous projects, but it's allowed us to enter a new geography. It's too soon to say definitively what the rates of return on this kind of project will be, but we expect them to be similar to Brigg once developer premium has been earned.

So in conclusion I've highlighted four projects here which we're at the varying stages of, which show our ability to move into different sectors and geographies utilising our core financing, structuring and developing skills. We're acting as a catalyst for wider Group involvement and to me it provides a powerful rationale for the Group's presence in business lines spanning the infrastructure space.

For the investments business it provides the further asset base which once we've developed, constructed and commissioned these facilities will be the basis of our continued momentum of our disposals programme beyond the period that Ian and Ian discussed earlier in the room.

I'll conclude by saying that I think Balfour Beatty Investments is well positioned with true plug and play capability to link with both our other vertical sectors and our regional businesses around the world. And with that I'll take some questions if there are any.

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### **Question**

I'm interested that you moved to Australia where the PFI model has been established for quite a long time. Are there any material differences in the market, I'm quite intrigued as to why you moved into Australia and what you can bring to the Australian market relative to indigenous players.

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

I wouldn't necessarily see us being involved in the PFI market which is very well established. I think we more saw that we had a skill base and a professional services arm which has got a deep expertise in this kind of facility which come together in a market where there is waste product that can be used to burn in terms of electricity

## **Balfour Beatty, Investor Day - Demonstrating business model flexibility in Investments**

generation in an environment where investing in. So I think it's rather than Australia the market being something we want to go and attack, it's more that actually the environment there fits our skills and experience and that we can make a success of going and developing a project there?

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### **Question**

So you'd basically be very much focused in that power market and as you say the sort of various different models that you've used there as opposed to trying to ...?

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

Yes precisely we are focused on, as Balfour Beatty as a whole, I could talk more about this, but we're focused on our vertical sectors, that's what we want to try and do it maintain a rigorous focus around applying our bid cost spend and our abilities in a set of areas where we can apply the most amount of experience and skill.

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### **Duncan Magrath, Chief Financial Officer**

Yeah, I think the reality is I wouldn't say never but it's unlikely that investments will go and invest in something where no other part of the Group is involved. So it's not just simply what can we get through the return, although that has to stand on its own two feet anyway, it's what else can it do for the Group. And sometimes the Investments business have done projects which actually probably have been more valuable frankly to the construction part of the Group then they have from the investments piece, because the equity has been reasonably small. That's actually still given a good return on the money, but I think it's looking at where we've got other skills in the Group and how can investments help facilitate growth in the rest of the Group.

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### **Question**

And just a second one if I may? Chronologically is Australia sort of the first platform and then you'd look to move out of that or would you look into other markets at the same time to utilise the investments?

.....

### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

I mean I think we're very much in line with the geographies that were outlined earlier. So we're actively looking at - obviously we've got a US presence and we're also looking in Canada. And I think we're also starting off down the track of looking at for example generation projects in India, it's something we're actively looking at with our joint venture partner there. So I think what we do in the investment space will very much be in line with the Group's geographical and vertical strategy.

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### **Question**

I'd just be interested to see - I mean you mentioned some returns there, I'd be interested to see how you think those returns have changed over the last five years and also related to that how the risk transfer has changed?

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

Are you talking about in UK PFI?

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### **Question**

Yeah.

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

So, I mean I don't think UK PFI risk transfer has particularly changed as we come up ahead of the Autumn Statement where that settlement may well change recently. But what has happened is as the number of projects in the market has reduced, the returns have become more - have become tighter as things have become more competitive.

But again I think I've demonstrated this in comparison to social infrastructure which has become a lot more understood and is a bit more straightforward and these are applying our skills at the best point possible, which is in managing complex risk. And that's where we see our ability to access slightly better returns. But we see that has being our core skill set.

.....

### **Question**

How should we think of these returns being a bit higher, as you've just discussed, because clearly in some of these areas, you know, in the Home Counties in the UK waste energy projects are being delayed, and then also is there higher risk associated with it being newer areas and more complex? So there's a time delay and there's the more complex side - what are the specific risks around what could go wrong?

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

Sure, again I think the procurement methodology, certainly on the PFI side, so we're talking about Essex and Gloucester; certainly take into account the fact the waste projects have had problems with planning, obviously in the past more generally. And so as distinct from other PFI projects they do take into account planning delay.

So yes we kind of work with the client, the public sector client to achieve planning, but obviously the planning authority for the client for a local authority will be kind of ring fenced away from the procuring side. But there is actually a methodology to follow in

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the contracts for what happens if there's a planning delay. So it doesn't just push all the risk onto us for example.

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### **Question**

I mean what specifically are the execution risks then, so are you saying the increase say between - comparing it to the social infrastructure project of say 200 basis points, if there's no time delay in there there's actually all ...

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

I think it's less to do with the time delay at the front end, it's more to do with the complexities of commissioning at the back end, so to ensure that everything in terms of both the technology kit and our plant and machinery around it all work together and are demonstrated to work. So it's more, as compared to a building handover, it is more complicated.

.....

### **Duncan Magrath, Chief Financial Officer**

I think the example you also gave was in Gloucester there's an electricity generation risk, so there's a slight risk around calorific value and you've got to factor that in. So there's a slightly higher degree of risk than simply the building is operating.

.....

### **Question**

As you see the risk levels move around on these projects do you see that as heavily influencing the kind of competition you find at the beginning of the process, or is it not really linked to the execution?

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

No I think what we find is in the market we're dealing with people have become very adept at structuring risk. So I think it's more about understanding what those risks are and understanding what solutions there are around that risk, around structuring that risk such as that it's financeable. And that for us as an investment business, that's the key thing, is the package of risks when put together a) attractive for us as an equity investor, but b) financeable in terms of the credit quality of that risk from a debt perspective.

So those are the things that we put together and I would say our competitors would be similarly kind of - well with greater or lesser degrees of kind of appetite for risk if you like, would similarly be looking at that. So I wouldn't say it necessarily influences how competitive some of these projects are at the outset.

.....

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### **Duncan Magrath, Chief Financial Officer**

It's probably fair to say that the competition is never probably the same in any two projects, but there will always be combinations of different people. So it's not like you're competing with the same person each time, you're competing with different consortia each time who bring different skills to it. So I mean as Sandip said earlier I mean the fact that we teamed up with Urbaser to start with and then used them again that was a skill that we wanted to work with somebody who got a number of these plants operating across Europe.

Okay, if there are no other questions there's a longer Q&A to happen, so if we go back into the main hall that would be great.

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### **Sandip Mahajan, Finance Director, Balfour Beatty Investments**

Thank you very much.

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