

Balfour Beatty

2025 Half Year Results Presentation

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Balfour Beatty

Leo Quinn, Group Chief Executive

Phil Harrison, Chief Financial Officer

Questions From

Rob Chantry, Berenberg

Graham Hunt, Jefferies

Jonny Coubrough, Numis Securities

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Introduction & Key Highlights

Leo Quinn, Group Chief Executive

So welcome to our half-year results. It's incredible looking at the video which I think is our best one yet. The sort of extraordinary things that we actually do and deliver on a day-to-day basis. Quite astonishing. And normally at the end of the presentation you sort of thank everybody. But what I would say is that for our 27,000 employees who do this day in day out, it's an incredible achievement and we'll always remain grateful.

So, I'm Leo Quinn, Balfour Beatty's Group Chief Executive. And I'd like to talk about our first half results, and the most important thing is look, we're on track to achieve our full year earnings and expectations.

I want to make three points here and I think they're really, really important. First and foremost is the strength of our underlying earnings business and the fact that we've actually achieved our 3% margin in UK construction, proving Phil wrong, is an accomplishment in itself. And of course, the astonishing growth that we've got within support services.

I'd also like to point out our record order book. And this is on the back of a rising infrastructure tide. And as you know Balfour Beatty is the market leader in infrastructure. What's quite unique about the company is our ability to turn earnings and actually order book into cash. And that underpins our dividend increase and also our share buyback. And if you want to ask me later how does orders underpin cash, I'll explain that to you as well.

So fundamentally a really, really good start to the year. But this is only half the story. And this next slide is very, very important because what it actually does is it underlines effectively the quality of the backlog and the pipeline that we've got. And most importantly, it allows us to be selective. And that selectivity allows us to improve margins, not only at the pricing level but at the delivery level.

So, let's just start with the fact that we've got 19.5 billion of order book, which is a record order book. But more importantly, that's underpinned by a pipeline, much of which is actually secured of another 20 billion.

The biggest challenge we face in the market today is the demand in infrastructure, far exceeds supply. And for over the last two years we've been actually looking at that and looking to capitalise on it in terms of our pricing strategy and margin strategy, but also in the de-risking. And the de-risking is really important because what it means is that the booked margin actually gets delivered as the delivered margin, as opposed to when you deliver the margin, it's below the booked margin.

So, let's have a look at some of this in detail. If I look at the 20 billion, we've got five growth engines within the business. The number one and the most important at this moment in time is the power transmission business. And that's really been driven by the fact of Net Zero, but more importantly, AI. Some of the demands for data centres and power connections is just phenomenal.

We're engaged in early-contractor involvement, which you might be more familiar in terms of as a feed study. That feed study is actually paid for by the client. So historically in that market we would actually be hard bidding work, whereby we'd put three bids in we'd win one in three, and then we'd deliver it with all of the risk. Now what happens is that we go in early, we'll actually survey the site for planning conditions, for soil conditions, early design, in some cases early procurement. And what that allows us to do is significantly de-risk the business here. The amount of business that's going to derive from our early-contractor involvement at this moment in time is 6 to 8 billion, which is about a third of the 20 billion market that sits out there.

In power generation, within power generation in the last six months, we've seen what effectively was an acceleration of orders into the first half of the year with Net Zero Teesside, but also with Sizewell. Sizewell has now passed FID, which is the government's financial investment case, and work is proceeding on site as if it's to be built in full. And further, Sizewell is, we've signed, and we're engaged in a three-way alliance agreement with ourselves, Laing O'Rourke, Bouygues, to deliver 14.5 billion of civils construction work. And that is actually a sign commitment, I'll explain more in the second half.

In the area of defence, we're engaged in three or four defence sites, which over the next 12 months will actually have to appoint a partner to deliver the fissile. The fissile work across these sites is worth between 2 and 5 billion, and we're actually on site delivering today and in a very good position to secure come with some of that.

In the case of Lower Thames Crossing, we see that Lower Thames Crossing where the contract has been awarded to us will probably start about 2028 but is all part of our growth pipeline.

And then within our buildings business, what we're looking at is a run rate business for another 3 billion, which has already been secured, but not awarded at this moment in time.

So, this strong backlog of enhanced margin and de-risk coupled with a 20 billion pipeline leaves me very confident that we'll be exceeding what effectively is the average cash going forward in the future. That then underpins what effectively is an accretive dividend and an increasing share buyback. So, I'm very confident with the momentum in the business on the rising tide of infrastructure that we'll be actually delivering significant shareholder returns into the future.

So, on that note, I'm going to hand to Phil in order to explain the reality.

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Financial Review

Phil Harrison, Chief Financial Officer

Thanks, Leo.

Good morning, everyone. In the first half, we made really good progress in our growth markets and remain on track to achieve our full-year expectations. That includes our ongoing expectation of increased profits from the earnings-based businesses with very strong contributions from UK construction and support services, more than offsetting a forecast

reduction in profit from US construction, where we've had a frustrating write-down in US civils in the year to date, for which we are confident we will ultimately get cost recoveries.

Looking into the first half in more detail, revenue grew by 10% to £5.2 billion, which was a 12% increase when excluding foreign exchange movements, largely due to growth in US buildings and support services.

Profit from the earnings-based businesses increased by 7% with strong profit growth in UK construction and support services, largely offset by a loss in US civils, and when including higher costs in the investments business, group profit from operations was flat at £77 million. Profit for the period decreased by 10% to £73 million, which included lower net financing income as last year's first half benefited from an impairment write-back.

Earnings per share decreased by 6% to 14.4p, and our order book at £19.5 billion has increased by 6% in the period, and the direct evaluation of the infrastructure portfolio reduced by 8% to £1.2 billion. Period end cash increased to £1.2 billion, driven by a large working capital inflow, which also resulted in average net cash increasing to £1.1 billion.

As I said, we remain on track to meet full-year expectations, albeit with a change in profit mix, and this gives the board confidence in significant ongoing shareholder returns. Align to this, the interim dividend has been increased by 11% to 4.2p per share.

Moving on to the business units. Let me start with construction services. UK construction had an excellent first half, excluding insurance recoveries, profits grew by 35%, and we achieved our long-standing 3% PFO margin target, a year earlier than forecast, with the improvement driven by better operational performance and the lower risk nature of the contracts being undertaken. We also benefited from an insurance recovery of £10 million, relating to an ongoing project. Looking to full year, we expect the business to achieve a 3% margin prior to including the insurance recovery.

US construction made a loss in the first half, with good performance from the buildings business offset by cost overruns and scheduled delays at a civil highways project in Texas. The project, which we're delivering in joint venture, is due to end in the middle of 2026, and as you would expect, the group will seek to recover these costs overruns from subcontractors. Prior to this year, highways activities in the southeast and Texas had been profitable for the group, and we expect this to be the case again following the conclusion of this project.

Align to this view, in the first half, we signed a further highways contract with the same clients, which we will deliver independently over the next six years. For the full year, we now expect US construction to deliver a profit of around £20 million.

At Gammon, the first half largely out turned as expected, revenue was 23% lower, driven by reduced activity at Hong Kong airport, where our two major projects progress towards completion. PFO increased by 13% to £17 million, and the PFO margin percentage increased to 3.1%, driven by the mix of work delivered.

I'll also touch on non-underlying items here, and you'll remember that at year end, we provided £52 million in respect of a jury verdict given against the group and its JV partner, regarding a US highways project completed in 2012. We're pleased to say that in the first half, a settlement

was reached with all parties, including our subcontractors, and the group share of the settlement was fully funded by its insurers. As such, the group has released this provision in full after taking into account legal costs incurred.

Moving on to support services, which comprises our power transmission road and rail maintenance businesses, all of which performed well in the first half. As you know, the large-scale investment in the UK's power transmission network is beginning to ramp up, and this can be seen in the first half numbers, with a 19% increase in support services, revenue being driven by higher volumes in the power business. As a result, profit for the period increased 35% to £46 million. For the full year, we expect PFO margin to be towards the top of the targeted 6-8% range with further profitable revenue growth from the power business and consistent performance from road and rail maintenance.

Let's now look at the group's order book, which is now at £19.5 billion, with an increase in each of the four divisions. UK construction increased slightly to £6.3 billion, and 82% of orders are now either on target cost- or cost-plus contractual terms. In the US, in dollar terms, the buildings business grew their order book by 6% in the first half, and civils added the new road project I spoke to earlier. Gammon has had a good period for order intake, particularly in the building sector, and their order book grew 12% in local currency, and support services grew by 16% largely due to new rail orders, including a long-term fleet supply contract with Network Rail, a place on Network Rail CP7 Western Reactive framework, and further track renewal work with the Central Rail Systems Alliance.

The power order book within support services grew modestly in the first half compared to revenue, as many of the large schemes which the business are working on are being contracted in phases. We are currently underway on early contractor activities, and the contracts for the later phases where the majority of the value sits will be added to the order book in the coming years.

Moving on to infrastructure investments, which made a loss in the period. The key driver of the division's losses continues to be the cost in US military housing, relating to the monitor's work. This month we have agreed in principle to extend the monitorship to the 6th of June 2026, which we believe gives the military housing business sufficient time to remediate the outstanding work.

In the first half the group also recognised cost relating to three UK PFI assets, which required remedial works ahead of hand back in 2026.

A small gain on disposal was recorded in the first half, with £2 million of contingent consideration received in relation to a 2024 disposal.

Looking ahead, we expect to make a small loss in the second half prior to disposals, resulting in a full-year operating loss marginally larger than the £12 million reported today. It is important to say that investments remains profitable when excluding the ongoing cost of the monitor's work.

Finally, we expect gain on disposals for the full year in the range of £30 to £40 million with a number of transactions ongoing.

Moving to the Directors' valuation. The valuation of the investment's portfolio decreased by 8% in the first half of the year to £1.2 billion, largely due to two main changes. Firstly, we have increased discount rates in both the UK and US portfolios to reflect changes in long-term interest rates and to align to the secondary market. This has resulted in a reduction in value of £61 million. Secondly, with over half of the portfolio being US-based, the strengthening of sterling versus the US dollar during the first half also had a large impact, reducing the valuation by £65 million.

We continue to invest in and recycle capital from the portfolio with two new multi-family housing assets acquired in the US during the first half and disposals planned in the balance of the year.

Looking at cash now, which has been particularly strong for us in the first half, operating cash flows improved and we're up 26% compared to the first half last year, but the major drive of the larger cash balance was a £290 million working capital inflow. This was driven by advanced receipts on several new projects in US construction and by working capital timing in UK construction.

The remaining items on the bridge were largely as expected, including around half of this year's share buyback being completed.

One other item I'll mention is our other category, which is normally a much smaller number, but included £26 million of foreign exchange movements in the first half, given the weakening of the US dollar.

I'll finish with a summary of our full-year guidance for 2025. We continue to expect an increase in PFO from the earnings-based businesses. In this, we now see UK construction operating at a 3% PFO margin, as it continues its upward trajectory and further progress in support services, which is maintaining margins while growing revenue. We expect US construction to have a much better second half and finish the year with PFO of around £20 million.

We expect a gain on investment disposals for the year to be in the range of £30 to £40 million, as we continue to realise value from the portfolio. Net finance income is expected to be around £30 million, and the effective tax rate will be close to statutory rates again. Looking at cash, we expect average net cash to be in the range of £1.1 to £1.2 billion now, and for capital expenditure to be in the range of £40 to £50 million pounds.

In summary, we remain on track for the full-year and continue to be well-positioned to capitalise on improving operational performance and the momentum in our growth markets in 2026 and beyond. This will continue to underpin our long-term commitment to grow shareholder returns.

I'll now hand you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive

Thank you, Phil. I'd start off by saying that we've been talking now for at least 18 months, two years, really about the growth engines behind the business, and in summary, these represent about 70% or cover about 70% of our revenue. But I have to say, where we sit today, I've never known the business be in such a good position for the future. As I leave the business, the strength of our order book and our pipeline is truly quite phenomenal.

I always think in any business, if you've got a portfolio and you've got one or two growth engines, that leads to a good overall outcome because the growth engines cover all of the misdemeanours elsewhere. If you've got three growth engines, it's a little bit like three bell fruits on a one-arm bandit. It's a jackpot. We at this moment in time have got five, and our biggest challenge is really, how do you cope with that level of demand with a limited supply? You know, there's only 27,000 of us to actually deliver. So, it demands that we become more selective, and we become more and more selective.

I'll take you through each one of these for a few seconds. The thing I'll point out to you here is if you look at this graph, which is sort of our backlog going forward and our revenue projections, between '24 and '26, the power transmission business is actually doubling. If that isn't interesting enough, between '26 and '28, it has the potential to double again. There aren't enough people and resources to deliver all of that. So, our number one message is actually really around selectivity.

Just a little bit of history. We've been in this business for about 114 years. It's where Balfour Beatty actually started. National Grid, which is one of our major customers, is actually, we've been doing business with them for 100 years. We're well ingrained in this industry. We have about 20 to 30% market share. We have about 2,300 blue collar workers in this market. And couple of other things. It's not only National Grid and SSC, but it's also now Scottish Power as well. We're very focused in what we do. We do 400 KV and 132, which is rather specialist. And again, there's not a lot of competition in that market.

I said earlier that demand has actually been driven by consumption. It's about Net Zero and how do we connect Wind Farms into the grid? How do we de-risk the grid? But also, the demand for AI and data centres is now booming and getting connections onto the grid. So, all of this caters to that.

We not only do the 400 KV and 132, we do substations and we're now doing converter stations. Converter stations, I was up in Scotland recently and visited one. They're 300 metres square. If you can just imagine a field where we're going to actually plant a 300 metres by 300 metre converter station to take wind power off into the grid. So truly phenomenal stuff.

It's not growth in the future; we're delivering this now. This business will probably lie on double this year if I look at it. But we're delivering on the likes of BTNO, EGL, and we've got the RIIO frameworks we're delivering against. And we're working on ECIs for ASTI, which is the SSE's power plan.

The other thing about selectivity, which I've said before, which is really important, and that is that we've chosen the schemes we want to deliver. There's a whole portfolio out there, and some of them are extraordinarily difficult in very remote places. All of our picks are actually where we've got good urban conurbations, and we can actually get people and talent.

I think one of the things that's remarkable in the last 18 months we've recruited 850 people into this business to cope with the growth, that in itself is a challenge. I'm very, very confident that our future is extraordinary bright in this area.

If I look at power generation, interestingly enough, Sizewell B, which preceded Sizewell C on here, we actually did the diaphragm wall and the foundations for that 40 years ago. So, it's very interesting how these things come back time and time again.

Hinkley Marine will be tailing off over the next 8 to 10 years as we do all the mechanical work. The civils work for us is largely finished. We'll be then morphing into a Sizewell C. And as I said earlier, a Sizewell C has come along like a bullet train. In the last six months, we've signed the alliancing agreement between ourselves, Bouygues, and Laing O'Rourke, to deliver the civils. The government has given approval to the financial investment case at a minimum level. We will end up sharing 14.5 billion of civils delivery in that programme over the next 8 to 10 years. So really, really, really encouraging.

The other order that's come in in the last six months is Net Zero Teesside published I think is 880 million. This is a situation whereby this is a negotiated contract as Sizewell was a negotiated contract. And what's really key about how these projects are de-risked. In the past, we would invariably have some sort of penalty associated with retentions or liquidated damages. In the case of all these contracts, we are bonest and incentivised on actually performing. So, it's only upside, and our downside risk is actually minimised in terms of there is a minimum level of margin that we can earn come hell or high water. Also, as I look forward to the future, you've got SMRs, you've got more carbon capture, we're working on fusion and the like. So, not only is this very visible in the short term, but in the long term, we've got even more growth coming through. I think you saw things on Rolls Royce this morning about the value of their SMRs for power supply to data centres for AI use.

So fundamentally, our generation business is growing as well. Again, I'll point out that between '24 and '26 it's doubling, and then there's also the potential for that to double again.

If I look at defence, defence is really one of our smaller businesses, but again, the challenge we're going to have here is again, we're circa 250 million here or 200 million, but again, between '26 it's doubling, and as you look out, it has the potential to double again. In the case of defence, we're working with three primary customers. All our work is around submarines and nuclear. The one part of the defence budget that was protected was actually the nuclear element of it.

We work with the likes of Babcock on Devonport, which is for the Astute-class submarine, where we're building out the dock. We're working with the atomic weapons establishment in Aldermaston, where we're in there building the hub, and they've yet to appoint their fissile partner. We're working with Rolls Royce in Derby, where we're building out the Orcus facilities, and again, they've yet to appoint their fissile partner.

We feel fairly confident given our background knowledge and experience and the fact that we're actually on these sites, that we're in a favoured position to actually secure an awful lot of that work, and that will be worth between something between 2 and 6 billion pounds in total.

Obviously, we work with the DIO, who have, in the light of defence, spending a growing backlog, and also a lot of the projects we're doing are in the area of cyber security, and those secure projects will actually roll one into the other. Again, they're not actually tendered, they're sort of negotiated because of the nature of them.

So, if I look back at power, our power business has been de-risked by something called Early Contractor Involvement or feasibility studies, these orders have actually been negotiated with the client directly, and there's only upside for performance and the down side risk is capped.

If I look at our transportation business, this is a mix of a number of businesses. Firstly, in rail, we've been very fortunate in the first half of the year to secure a number of rail maintenance contracts, but also in the area of plant hire and plant equipment. So, we've won the Tampa contract, which is a 10-year commitment to Tampa hire, and then we've also, within that, won another contract, which is also the plant hire for rail for the next 10 years as well. So, with HS2, we're absorbing a lot of the transport budget at this moment in time, the rest of the budgets are getting rather tight in terms of highways, local roads, and rail. So, the fact that we've got a secure pipeline for rail is very good. Underpin by our ongoing maintenance that we do. So, we see rail as flat for us over the next 4 to 5 years.

When I get to roads, roads breaks into two parts. It breaks into local authority roads, which is our living places business and is in our service business, and we've got highways, which is our national highways, motorways, and the likes of that. In terms of living places and local authority roads, we've got a very solid business going forward.

Every 12 months, one to two major councils will come out with major tenders. We're working on a couple at the moment, which are in the hundreds of millions, and they're invariably one on all. You either win them, or you lose them. We're very encouraged by the outlook in this market, but at the moment, we're not forecasting any growth to come out of this.

If I go to highways, our two major projects at the moment is obviously finishing off the M25 A3 at Wisley. Just for the people in the room and on the call, the M25 will open at the end of September. So, for those who've sat in traffic for a long time will be pleased at that relief. The A3 will take a little bit longer.

We've recently won the M3 Junction 9, which is a hundred-odd million highway job. We're working on such things as the A66 and the A57. None of those we're forecasting as growth, but the growth that we do see is in the Lower Thames Crossing, which is already being secured, which will kick in about 2028, and that will give us a nice fill-up. This is a very, very solid business, has produced good profits and good cash flow for the last 20 years, so it's really one of the foundations.

We see a lot of prosperity in the likes of the growth at Heathrow. We're more interested in the T2C terminal probably coming up in the next two to three years. I think the runway will be out past 2032 and the likes of that. So, aviation is very big for us and given this business as an expert in material and haulage, we cluster reservoirs in here. There's going to be a lot of building of new big reservoirs around the UK, and on the right terms of conditions, we'll engage in that sort of work. So, again, there's a lot of opportunity in front of us in this business, built on a very solid rail, local roads, and highways business.

If I look at the US, about 2023, we embarked on what effectively was a growth initiative in the US, and that was actually to expand our territories beyond the main branches. So, the role of the US for us is it diversifies our risk away from the UK and gives us a second string to our bow. Within the US, we're very well diversified all the way from Seattle to California, across to Texas, Florida, and back up to Washington, D.C.

What we did is, so geographically, we looked to expand the business, and you can see that the benefits of that is we've gone from an order book of 5.7 to 7.1 billion. The model for us is a much lower risk type of model. It's a low return in terms of its fee, but the risk is passed down to the subcontractor chain. The initiatives that are working for us very, very well is apart from the new branches that we've opened in places like San Diego, not San Diego, Sacramento, is that we've been able to cross-fertilise customers across the US.

So, for example, Disney, where we have a very big presence in Florida, we've now started doing work with them in California. Universal, similar, we're now starting to do work in Texas. We've seen a huge demand for the data centres, and we're one of the largest suppliers to one of the tech companies in Portland, Oregon. That actually is now spread to Washington, D.C., where we've just secured a 200 million data centre order, and we're also looking at similar in Phoenix.

So, for us, the US geographically is actually going very, very well. It's growing, and actually the specialisations that we have, whether it be hospitals, education, the likes of that, is putting us in very good stead to actually expand that beyond where our concentrated centres are today.

So, look, finally, really summing up. It's very interesting to have, I think, a really strong order book with rising margins and a de-risked order book. That's just one part of it. But the other part is, what have we got in place to give us confidence that that can be delivered in the future? And 10 years ago, we launched our 'Built to Last' programme around lean, expert, trusted, and safe. But where do we stand today?

First and foremost, today, we've got strong governance and controls across the business. We've got a dedicated and committed workforce across the country, across the globe. In terms of trusted, we are, by far and away, the market leader in infrastructure, and we're trusted to do what we say we will do. So, if someone's thinking about an infrastructure project, you cannot work without having Balfour Beatty on the list.

We have what I think is some of the best-in-class safety practises where we're leading the industry in digital and the application of AI, and we have a group of employees who actually care about the environment and are committed to their local communities. So, that's the foundation on which the future of the company will be built.

What has 'Built to Last' actually delivered for us? Well, a 47% increase in earnings. But more importantly, that's underpinned by a level of cash generation, the likes of which I've never actually seen before. We've returned just under a billion to shareholders via buyback and dividends, and we've actually bought back 28% of the company at an average price of about £3.30, which judging by today's price was a good deal. We've got a highly de-risked 19.5 billion backlog, strong margins and, as I say, highly derisked. And we've got a 20 billion pipeline of additional work, which actually will be delivered over the next 10 years.

Our backlog will be delivered over the next 2 to 3, but our pipeline will be over the next 10. So, if you're thinking about confidence in the ability to continue over the long term, to return cash to shareholders, I'm personally very, very confident that all the right things are in place. So, finally, in summary, I think we started out 'Built to Last.' I think Balfour Beatty is already built to last. And on that note, I'm going to hand over to questions

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Questions and Answers

Rob Chantry, Berengerg

Hi, Rob Chantry at Berenberg. Thanks very much for the presentation, guys. So, yeah, three questions from me.

Firstly, I guess, on the US order backlog, another strong increase. Could you talk a bit more about the level of confidence you have on the US margin and EBIT generation in that backlog over the coming years? I know historically you've maybe talked about a normalised level of EBIT, the kind of 40, 50 million level. But obviously, a bit of a step back in the first half. So, to talk about the confidence you have in the margin of that backlog.

Secondly, I guess on US civils as well, can you talk about what exactly went wrong? I know you've announced this year several more contracts in Texas on the roadside. Is it the same risk profile or the challenges? I know you commented on lower return and lower risk, but some more clarity on there given the amount of exposure you have to Texas.

And then thirdly, just some comments around the infrastructure investment piece on the US monitorship. I know there's kind of news in the first half that has been extended, I think the 6th of June next year. Just some thoughts on how that impacts your attitude to that asset. So, on the background to it and your thoughts around that ongoing process.

Thank you.

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Leo Quinn, Group Chief Executive

Over to you, Phil. [laughter] I thought you could do all those given it's your last go. See if you can get them right. [laughter]

Do you want me to do it?

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Phil Harrison, Chief Financial Officer

You usually do numbers!

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Leo Quinn, Group Chief Executive

Let's do it. I'll do the buildings first and foremost. The growth of buildings is underpinned by what effectively is quite diversified across the US continent. So, that's quite strong. On the building side, we had an excellent first half with buildings. We see that being the same in the second half. The first half result was set back by the civils project, which is delivered in joint venture in Texas in the first half. I'd have to say we've really had an outstanding first half for buildings. We have a lot of confidence in that business.

The thing I would say more importantly is that the risk in that business does go down to the supply chain. So, when something goes wrong, it doesn't necessarily go to our account. But that actually is reflected in the fact that we only make like a 2% margin return on the fee.

So, it's a low risk and a low return. So, I'm very comfortable in that particular business and business model growing for us. The downside risk obviously happens is that if a subcontractor does go bankrupt and that delays the overall schedule, then it will go to liquidated damages to our account. But in the event, the scope of work and the cost of completing any subcontractor default goes back to either bonding or the insurance.

In the case of Texas and Phil should fill this in as well. The contract that we have in place is in joint venture. And going forward, for the last 18 months, we have not done any joint ventures in Texas with the particular partner in question, primarily around the fact that we don't see the value add in that relationship for us going forward. In this particular case, the issue that's arisen is that it relates to subcontractors, it relates to design. And as a result of it, work has had to actually be redone.

When things are designed and in the wrong place, invariably there's a liability that falls back to the likes of the designer. And we are going to look to recover that in full back from the company. The problem with our business model always is, when you recognise the fact that the job is going to run longer, therefore prices are going to rise and you have the potential of liquidated damages, you have to recognise it in the period. But you might not actually get the money back for two years on whatever it is, and it's usually a long negotiating process. So that's the bit about that, anything you'd like to add?

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Phil Harrison, Chief Financial Officer

No, we are pursuing the third parties. We're confident that we'll get a good outcome from it.

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Leo Quinn, Group Chief Executive

The one thing I would build on Phil said it very well was on 161 where we had the insurance case recently. We took a 50 million reserve against that liability at the end of the year. That actually got resolved and settled and we've written back the full amount, bar the legal costs. That is extraordinarily unusual to settle something in that timeframe. But it does, it is interesting when I analyse it, we took a 50 million reserve and it's been written back. We've now taken another reserve, so net net there's no impact on cash.

It doesn't matter whether it's a middle column or underlying, the cash of the two net each other out. So, it has no impact on our ability to continue our share buyback and return a capital shareholder. So, it's, and I think the thing I would say is that we've got such a resilient balance sheet that you can take those bumps in the road in your stride.

By the way, you don't want to be taking any bumps in the road, and you don't want any potholes. But the fact of the matter is the strength of our balance sheet, the cash on it, just means that it's bloody annoying when these things happen. But, you know, it's part of the reality.

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Phil Harrison, Chief Financial Officer

On US monitorship, we will be through the bulk of our work by year end. And then the monitor will do their work. I think in our discussions with the Department of Justice, we set it to be a date that everybody was comfortable with, and we can bring this thing to a conclusion

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Leo Quinn, Group Chief Executive

Next question

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Graham Hunt, Jeffries

Thanks very much, Graham Hunt from Jeffries. I've got three if that's alright.

Just going back to US buildings market, you called out a number of areas of strength. Just wondered if there are any pockets of weakness that are worth calling out, or just generally how you're seeing the different subsegments there.

Second, on the UK construction business, you've now hit your 3% margin target ahead of schedule. When you talk about those big projects, or the major projects that fill your pipeline going forward, are you confident you can maintain that 3% or even maybe go a little bit above?

And then third question, just a bit of a bigger picture one on the two administrations that we have in the UK and the US from the government side. Do you have any reflections on what

they've been doing in terms of accelerating infrastructure build out, where that's been most impactful on your portfolio, and what gives you confidence in terms of the policy they're putting through? Thanks

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Leo Quinn, Group Chief Executive

Yeah, I better do these, because I mean they're all going to be fact-based, aren't they?

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Phil Harrison, Chief Financial Officer

I can't wait to hear your answers!

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Leo Quinn, Group Chief Executive

You asked for a moment of weakness. We're low-profile as a company. We don't really like to put out there in terms of a lot of things we're working on for various reasons, some good and bad in publicity.

But you say, I think you asked the question as to maybe low-lights and whatever, but recently Trump's visit to the Federal Reserve, which we're building, was not necessarily the publicity you garner. However, saying that, the project, again, very low-risk, phenomenal what we're doing, basically jacking up the entire building and putting a new building inside it. So, the things we do are quite extraordinary.

The business continues to do very, very well. And as I said, the first half has been really one of the best first halves we've had in the business. And I'm very encouraged about the pipeline that we see. You know, our market-leading position for schools in California is just going from strength to strength. There's one here on my shoulder. If you look at, sometimes they spend over \$200 million on a school. You don't hear of that in the UK.

So, I don't know if Phil wants to add. In terms of the 3% margin, look, I've always said that our UK construction business would operate at 5, always said it. And if it wasn't for the cockups that we've had in the past, we would sort of be moving in that direction. Phil likes to keep me firmly grounded and sort of get me to understand that, you know, 3 is a virtual reality. But I do think, you know, when I start to look at what's happening around, you know, what we're bidding, the growth rates, the fact that we have specialised services which deliver within our framework. So effectively, we will deliver our ground engineering as best in class. And then whether we deliver or someone else, we would get a fee on that as well. So, there is absolutely a pathway to exceeding the 3%. So, I don't think 'how long it's going to last.' I think 'where does it go from here' is the question you need to be asking.

And I can't remember the third one now, but

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Phil Harrison, Chief Financial Officer

Make a picture on US and UK government.

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Leo Quinn, Group Chief Executive

Look, UK government is in a bind. It's trying to create growth, and if it can't get growth in sort of like the property market and things like that through natural, you know, macroeconomics and likes, it's doing its via fiscal expansion, so it's pumping money into infrastructure. Money it doesn't really have in reality. But once these projects start, they don't stop. But I have to say, the projects that we're doing, when they deliver the benefits like Crossrail or the Elizabeth line now, are just truly phenomenal. So, I think they're very, very different.

In the US, we're not that exposed to fiscal expansion or whatever. We've got a few road projects. They're well-funded. They're interesting. But we don't have a big footprint. In the UK, we really do dominate the industry in a very positive way.

I don't know if you want to sort of add to that, Phil, about 5%.

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Phil Harrison, Chief Financial Officer

Well, the... I think the great news is that we have hit 3%. We've hit it a year earlier than we thought. I think that does come down to the kind of operational discipline that we've had in the business. So, there has been less cockups. I think if we continue that trajectory, then, you know, we can probably dream of 5. But, you know, more sensibly, how do we go from 3 to 3.5? And how do we go from 3.5 to 4? That's how we need to approach it. But I think we've got the opportunity to do better than 3.

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Leo Quinn, Group Chief Executive

Obviously, he's been taking the blue pill, isn't he? You know, from the Matrix.

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Graham Hunt, Jeffries

Thanks very much.

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Jonny Coubrough, Deutsche Numis

Thanks. Jonny Coubrough from Deutsche Numis. Can I ask firstly on power? I think you've previously spoken about it being a 10 to 12% operating margin business. Is that still the right level? And also, you previously spoke about getting to 800 millions of revenue there next year, Leo, you mentioned the potential to do a lot more, but you're constrained by resources. So, what do you think realistically that revenue line can be?

And then another question would just be on transportation. You set out the pipeline out to 2030 excluding HS2. What would that chart look like with HS2 included? And that continues to 2030. Thanks.

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Leo Quinn, Group Chief Executive

Let me do the HS2 one quickly. I think we're at the virtually record level of revenue this year and last year. We'll see the revenue next year for HS2 fall off slightly.

I do know that the funding has been set aside to get all the civils completed and then to get the track systems up and ready. They're looking to complete all of the civils by the end of 2029. And then with a clean sheet handed over for the track systems and the power to be delivered.

So, I would say revenue next year in HS2 will be off between 20%, something like that I'd estimate. Which, by the way, is fine because from us, the people working on that will then move to the likes of Sizewell and some of the power jobs. So, the resource is the critical part. So, there's no reduction in revenue overall for the group. We'll still get growth overall because of the growth in the likes of Sizewell and power.

In terms of the 10 to 12% for power systems, we're still targeting them on double digits. I wouldn't want to limit them in any way at all. We're actually bidding at higher margins because we have to be more selective. And we're looking at severely de-risk. So, our ability to deliver the book margin is severely enhanced.

And then on the 800 million target, I wouldn't pin that in for next year. I'd actually look probably over next 18 to 24 months to get to that level because you do have to build to it. This year we'll just be sure of doubling the business but the year after it'll continue to grow. But we don't want to force growth because then you start making mistakes.

So, I'd rather have a reliable, smaller business that guarantees my return and my cash, than sort of big business that goes wrong on you. So, keeping it under control is really, really important.

I've worked in a lot of markets. I've seen a lot of growth. But the growth in power at this moment in time is astonishing. And the fact that we've got the ability to de-risk it and we're being paid to de-risk it means that what historically was selling cost is now revenue for us.....

Jonny Coubrough, Deutsche Numis

Great, thanks. And maybe just while I've got the mic, Leo, given it's your last outing, last set of results. Can I congratulate you on your 10 years. I think numbers speak for themselves and the 'Built to Last.' I think the share price was £1.50 when you came in now £5.50. So, we're wishing you all the best for the future.

Leo Quinn, Group Chief Executive

I'd say thank you for that. And of course, no man's an island. It can't be done without 27,000 employees and a very painful finance director. So, it would be wholly inappropriate if I was to take all the credit. I don't mind taking most of the credit, but I have to give some to my wingman, who has done a fantastic job in sort of keeping the ship stable and has been a great partner and a friend throughout the entire period. [turns to Phil Harrison] So all credit to you.

Phil Harrison, Chief Financial Officer

I am actually surprised Leo that you ended the power thing by not actually saying 20% margins. I thought you were constrained by, you know, 10 to 12.

Leo Quinn, Group Chief Executive

So, any more questions?

Moderator

Yeah, let's just... I don't think we've got any questions on the phone. We do have some people listening in. So, let's just give it 10 seconds and maybe some of the guys on the phone might put their hand up.

Leo Quinn, Group Chief Executive

Well, while we're just waiting, I think it's worth saying, look, the underlying strength of the business and the balance sheet is phenomenal. Absolutely phenomenal. And it's strong enough to take shocks and still deliver those shareholders returns year in, year out.

You know, I did a bit of a calculation the other day. The last five years, we've gone from like £2 to £5 and whatever. If you just continue the strategy mathematically, returning the same amount of money year on year for the next five years, with no change in multiple, you get to a £10 share price just mathematically.

So, if we, you know, if we actually don't change the strategy, do what we're doing today, you've got a chance to double the share price again. Record order book, record pipeline, highly de-risked, probably some of the highest margins we've seen in the backlog. You know, I've never known the business to be in such good shape.

And I would like to recognise and give my best wishes to Phil Hoare, who takes over from me on the 8th of September. First of all, he's a fabulous guy. He's a really nice guy. He's been in the industry 30 odd years, extremely competent, knows more about the bloody industry than I do. And I'd have to say, I think the board has done a fantastic job in choosing him. So, I'll be staying around to the end of the year to help out where I can. But I think, you know, it's a great business.

And, oh we've got a question, have we?

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Moderator

We have. Yeah. I think we've got two on the line. So, I'll hand over to the operator to introduce.

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Operator

Thank you. We'll now take our first question on the conference line from Joe Brent from Liberum Capital. Your line is now open. Please go ahead.

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Joe Brent, Liberum Capital

Morning, Leo. Just when you thought you got away. Can I just ask three quick questions, please?

Firstly, on the monitorship on US military housing, am I right to think that we did hope that that would have been sorted by the end of this year. And is there any sort of financial impact about that being sorted by the middle of next year.

Secondly, just on your views on the secondary market for PPPs, given the rising discount rates you talk about.

And thirdly, just your view on the sustainable level of negative working capital as a percentage of sales for the group.

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Leo Quinn, Group Chief Executive

As you say, Joe, we thought we got away with it all. Yes. Phil, do you want to do the monitorship, and I'll touch on... I mean, you could do all three, actually. The second one was about PPP. What's the outlook for it in light of lowering interest rates?

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Phil Harrison, Chief Financial Officer

So, the monitorship was officially due to end on the first week of September this year. I think our view was that we will be through the bulk of our work, as I said, by the end of the year. And then it's just a matter of the monitorship and the monitor process going forward to the final period in June.

I think we anticipate that we should be able to deal with it within the current cost budgets that we've got there. That's the first one.

I didn't quite understand the PPP one, so I'd have to ask Joe to say it again.

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Joe Brent, Liberm Capital

It's in the secondary market valuations, given that discount rates have gone up.

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Phil Harrison, Chief Financial Officer

Yeah, so when we did our analysis for valuation for the half year, clearly, we look at interest rates and then we look at what kind of... We can see a market values and other people's secondary activities. And what we concluded was that we needed to increase our discount rates in the UK by about 0.6 and in the US by 0.5. So that's, I think, just the normal ebb and sway of the market at this point and where we are in the cycle.

So, I don't, again, we'll keep our discipline about. We have certain values that we want for our assets. If we don't achieve or we can't see us achieving those, then we won't necessarily sell

them, because we think we know the return that we want on those assets. So that's number two.

And then number three on... Well, I'm always proven wrong. So, I said that we'd be about 15% of working capital revenue. We've just posted, I think, 18%. We do think we're going to come off that. We do think there's a bit of an unwind in the second half. So, I think our sustainable level is still 15. I still think that's a very good point to be at, 15%.

We will try very hard, though, to maintain the 18%. So, if we've got it, we're reluctant to give it away. So, we will try very hard to keep that. But long-term sustainable, we probably think it's around the 15%.

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Leo Quinn, Group Chief Executive

Yeah, and on that, our working capital is actually helped by growth. As you start to increase your pipeline, your foreorder book, you're actually getting mobilisation payments and the likes of that, that's probably why we're at such a high level or one of the reasons why we're at such a high level today.

Joe, there's one thing that you said, which I thought you asked a different question, which would have been a brilliant question, and that was the outlook for PPP in the UK. You know, there's no doubt the government doesn't have the money to do everything it wants to, or more importantly, needs to do. So, I do think there's going to be some sort of change or resurgence in getting private money into infrastructure.

You know, as you're hearing around Sizewell, they brought in equity in, and then also around the Lower Thames Crossing. Remember, our investment portfolio was founded around PPP. We were one of the leaders in that area. We still have that expertise, so it may well be that there's a bit of a renaissance in that area for the right type of capital structures, especially around highways and things like that, where we actually financed part of the M25 15-16 years ago. Yeah.....
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Joe Brent, Liberum Capital

Thank you, Leo. A brilliant answer to the question that I did not ask but thank you!

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Leo Quinn, Group Chief Executive

You're welcome. Anything else?

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Operator

Our next question comes from Nicholas Mora from Morgan Stanley. Your line's now open.
Please proceed.

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Nicholas Nora, Morgan Stanley

Yes. Good morning. I just have three quick follow-ups.

So, the first one on the cash generation, which was very impressive, even if we put aside all the cash needed to run construction, I mean, you end the year with an extra with 500, 600 million pounds sitting there. You did not want to boost the share buyback pace in the second half, considering where you're at right now. That's the first question.

Second on US civils. You, I mean, if we put aside the data contract going wrong, where do you think that business can go? We see peers anywhere between 2, 3% PFO margin to low teens now. Where do you think your business can get within basically a reasonable time frame?

And last one on support services. You've highlighted, you're still confident in low teens margin for the business. Considering the mix, you are not confident enough to raise the guidance for the margin above and beyond the 8%.

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Leo Quinn, Group Chief Executive

Yeah. So let me answer that because I was, first of all, power in its own right is different to support services. It's a part of the portfolio, about a third. So, the question I answered was double digits in power, not in support services.

That's combined with a lower return in our living places, which is local authority roads, but the blended margin is about 8%. And I think that's where we've guided to the upper end of expectations there.

You asked a question on cash, and I'll do this one. And Phil could do the civils one. But on the 500 million that you refer to, it doesn't matter where it came from, that money goes into our account.

It's really, really important that we continue to maximise cash. For two reasons. One is we get income on it by virtue of interest, but it also allows us to invest in our investment portfolio where we look to get a superior return.

So that's the benefit of the cash. You can't really return working capital via a share buyback or dividends because it's not sustainable. And it's actually arguably not our money, but we do get the benefit of having it on the balance sheet, and it's a material benefit.

And then on civils, I'll say tongue in cheek is that, if we could just turn in two years of consistent profit, whether it be 1%, I'd be happy, let alone 2 or 3. But you're right, if you look at Tutor Perini and some of these others, they have turned in double digit profits on their civil businesses, but it is a lumpy business because these projects run five years plus. And it's really when you get very close to the end that you realise that you can actually recognise the full profit that you've made.

I don't know if you want to comment, Phil.

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Moderator

OK. We've one more question from Andrew Nussey at Peel Hunt, which I'll read.

Looking at the power growth engine, resource is a key theme. As projects move into delivery phases, how reliant will you become on local supply chains versus in-house capability and how concerned are you regarding the ability to secure resources in order to bank incentive components of margin?

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Leo Quinn, Group Chief Executive

Look, let's face it. At this moment in time, infrastructure is booming, not only for us, but for everybody else. So, it is a battle to recruit, retain the best and the brightest.

As I've said, we believe that we've de-risked the downside. So, in the past, we would hard bid something with the power businesses. We'd be then liable for ground conditions. We'd be liable for retention. We'd be liable for liquidated damages for late delivery. Those don't exist today in the contracts that we're bidding.

So, the downside risk is capped. The upside incentive becomes predicated on performance. And that does rely on local supply chains as well as our in-house capability.

The fact that we've pre-selected all of these jobs to ensure we're in urban conurbation gives us the best chance. I wouldn't want to be delivering something up at Thurso and Spittle and John O'Groats because having sort of driven around there recently, there's nobody there except sheep. So how you actually get anything delivered is a nightmare.

One thing I didn't say about power, which I should actually say, we're actually the market leader in delivering pylons. And the pylon growth is eye-watering over the next 3 to 5 years, and actually over the next 10 years. And we have a factory which is re-equipped. It's got all brand-new CNC machines in. And we'll be looking to double and treble the volume over the next five

years. We've moved from single shift to double shift. So, we have another arrow in our quiver around power. And that will allow us to enhance the returns in that area.

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Concluding Remarks

Leo Quinn, Group Chief Executive

Look, just in summary, as I said, I've never seen the business in such good shape. Balance sheet is very, very strong. The backlog and the pipeline are materially de-risk and the returns are higher. I'm personally very confident about another 5 years or a decade of infrastructure growth underpinned by another 5 years of shareholder returns both in increasing dividend and buyback. What more could you ask for?

Thank you. Appreciated. Bye-bye.

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