

Balfour Beatty

2024 Half Year Results Presentation

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Balfour Beatty

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Introduction & Key Highlights

Leo Quinn, Group Chief Executive

I'll bet seeing that makes you want to put on a pair of Wellingtons and a fluorescent jacket, doesn't it? It's very impressive. Given what we see in the market, we could probably give you a job as well at this moment in time.

I'm Leo Quinn, Balfour Beatty's Chief Executive. This is the First Half Results. I'm joined by the very famous, infamous Finance Director Phil Harrison, who's here to accompany me today. And I think we've got a really exciting ride with these numbers.

First and foremost, the one word for me that characterises where the business is at this moment in time and these results is momentum. What we're seeing is real momentum in terms of earnings growth, in terms of bookings growth and in terms of shareholder returns.

And why is that? Well, first and foremost, Balfour Beatty's is uniquely positioned just at this window in time whereby the rising demand that we're seeing is uniquely matched to our capabilities. So, it's a little bit like being in the right place at the right time to deliver the market needs.

Secondly, we're facing into a market which is actually constrained both in terms of capability and people in terms of numbers. And when that happens, what we actually find is that prices and costs rise, but risk also reduces.

So, our challenge going forward for me is I'm focused totally on how do we grow earnings. I'm not interested in growing our top line, i.e., our bookings and our revenue. For me, it's really about being selective. And what's important is actually how do we determine that we ensure earnings grow and that we get profitable growth.

And if we deliver that, we'll end up with cash back profits, which will actually then fund what effectively is our dividend and our shareholder return, after our first priority which is ensuring that we fund the business properly in order to actually deliver on this growth.

So there's real momentum happening at this moment in time. And what's behind that? Well, first and foremost, what we've been doing to shape the market, long before the election, was we published our Blueprint for Growth. And this was a document which was put together by the industry participants, both the design and actually the delivery side. And it was really around what are those things that Government needs to do to fulfil its ambition to grow the UK economy.

And now we've got Labour in the power seat. They're talking about growth. And all the enablers they're talking about all match what we were actually espousing in our blueprint for growth, such things as fixing planning, which I'm sure you've heard, things about skills and the apprenticeship levy, things around leveraging private finance. All of those things actually are the things that we need in order to grow the economy.

It's quite interesting if they actually are successful in achieving all those things, it's going to give us a bigger headache in terms of how we cope with the demand.

And the areas that the Government's focused on and the reasons why is first and foremost is energy. And I'll touch on this in great detail later in my slides. But the fact of the matter is low-cost energy is going to empower the next industrial revolution, whether it be data centres and AI. So there's a real need as to why we get this.

Transportation is actually going to lower carbon and the idea of a zero-carbon footprint will happen through what we do to decarbonise transportation. And defence is quite simply about keeping our nation safe. We're heavily invested in all of those areas and those are three of the primary government priorities.

And why are we going to win in these markets? First and foremost, we have the largest resource for power, power transmission and cabling in the UK. We've worked with the likes of National Grid for 100 years and that's actually real contracting with them. So, we're well established.

In terms of transportation, we have leading positions in terms of roads and rail, we're National Highway's largest supplier. And in terms of defence, we have a 20-year track record, and we have great capability in nuclear, which is becoming a very important area which I'll touch on later.

So, let's spend a few seconds and sort of say well, sounds interesting and that's the strategy, but what have we actually done and what are we actually doing?

So, I'll look at energy security. First and foremost, we have major activity going on with both SSEN and National Grid. So, if you look at Scotland and you look at Skye, we're in an early contractor involvement arrangement with SSEN around spec'ing out what would be at least £1bn worth of transmission business. We're also doing the same with the Inveraray to Peterhead and then Peterhead South. Put those two projects together, the minimum value associated with that is actually at least £2bn.

If you look down into England, you start looking at the Suffolk area, I'm pretty confident within the next 30 days or so, we'll register probably something in the order of another £600m to £700m worth of work.

We're working with the likes of BP and others on Net Zero Teesside.

In terms of transportation, obviously the capability and skills we have on HS2, which is now about 50% complete, really actually supports all the other activities around. We've won the A9, we're working on finalising the A57. There's a lot of work going on in transportation.

We're looking at - in the rail area, we're looking at things like the Midland Hub, the Midland Main Line. All of these projects are really vital to actually levelling up in the economy.

The biggest and single most important project I think to growth in the UK is the Lower Thames Crossing. Effectively, that's the road that will connect Europe to the north and actually mitigate the risk in the Dartford Tunnel, which is actually a serious risk to the country.

In terms of defence, obviously we're continuing to work with AWE in the nuclear area. Then in the case of Rolls-Royce, we've recently won what is the preferred contractor to work with them on their AUKUS programme, which is sub £1bn.

Then in the US, in terms of buildings, great strides in terms of airports, schools, prisons and the likes of that. And we're seeing a very frothy US backlog, which I'll talk more about in later slides.

So, in effect, real business happening in power and transmission. Roads have been driven by zero carbon, defence is keeping us secure and buildings in the US is a strong market for us.

And on that note, I'll hand over to Phil to look at some of the facts.

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Financial Review

Phil Harrison, Chief Financial Officer

Thanks, Leo. Good morning, everyone. Let's start with the headline numbers.

Revenue grew by 3% in the first half to £4.7bn, which was a 5% increase when excluding foreign exchange movements.

Profit from earnings-based businesses increased by 6% with strong profit growth in UK Construction and Support Services. Group profit from operations reduced by 4% due to higher costs in the Investments business. Profit for the period increased by 9% to £81m, which included a lower tax charge due to a change in profit mix. And earnings per share increased by 18% to £15.3, which includes the benefit of a lower share count, given the Group's ongoing share buyback programme.

Our £16.6bn order book has increased slightly in the period and the director's valuation of the infrastructure portfolio increased by 5% to £1.3bn.

Period end cash reduced as expected, with working capital outflowing as forecast and average net cash increased to £735m.

The Board have increased the interim dividend per share by 9% to 3.8 pence and we remain on track to deliver full year earnings growth.

Moving on to the business units, let me start with Construction Services, which delivered profit growth of 3% in the first half. UK Construction revenue was 4% lower due in part to volumes of work at Hinkley Point C, which are now reducing given the progress made on the project.

The business continued on its path to improved PFO margins, moving from 2% to 2.3% and increasing PFO by 13%. This improvement is a result of our better operational performance from the business and the lower risk nature of the contracts being undertaken.

US Construction PFO reduced in the first half, as we indicated it would at year end, due to a small number of civils projects which have been impacted by delays. The US buildings

business has been performing well and grew revenue by 5% in the first half. For the full year, we continue to expect US Construction's PFO to be in line with 2023.

At Gammon, revenue increased by 22% due to higher volumes from the major Hong Kong airport projects and PFO increased by 7% to £15m. The PFO margin percentage reduced due to timing of profit recognition on contracts and is expected to improve for the full year.

Moving on to Support Services, which comprises our power transmission, road and rail maintenance businesses, all of which performed well in the first half. Revenue increased by 20% due to higher volumes of road maintenance work. As a reminder, we started two new road project contracts towards the end of the first half of last year and having a full period of those up and running has contributed to higher volumes.

We also saw a spike in the demand for road surfacing works in the lead up to local and national elections. As a result, profit for the period increased 13% to £34m.

For the full year, we expect PFO margin to be towards the top of the targeted 6% to 8% range, driven by the second half mix of work being more evenly weighted between power transmission, road and rail maintenance.

Finally, we've seen an increase in the Support Services order book in the first half as we begin to book the first of the power transmission orders, which will double the size of that business in the coming years.

Let's now look at the Group's order book, which has increased slightly in the period to £16.6bn. UK Construction has remained flat at £6.1bn and 83% of orders are now either on target cost- or cost-plus contractual terms.

In the US, within the £5.6bn order book, the buildings orders increased by 3% in the first half and the order book has now weighted 79% towards buildings compared to 76% at year end. As you know, the risk profile of civils work in the US is higher than that in buildings and therefore we continue to focus on a narrower scope of projects in civils that we believe can deliver attractive, sustainable returns.

Gammon orders remain flat at £2bn and Support Services has increased by 4% following new power awards.

Beyond the £16.6bn shown, we also tracked the projects which have been awarded to the Group but have not yet gone to contract. Encouragingly, this figure has risen by 40% in the first half to around £8bn, driven by the addition of the Skye project in power and a series of new awards in US buildings.

Moving on to the Infrastructure Investments. At the operating level, the business made a loss in the period due equally to two main factors. In the US, there has been a further increase in military housing costs relating to the Monitor's work and in the UK, a student accommodation project for which the Group has been awarded preferred bidder status was cancelled by the customer. As a result, we have written off the capitalised costs associated with the work on the project to date.

It is worth noting that there are no other capitalised bidding costs on the Group's balance sheet relating to projects which have not yet gone to contract.

Looking to the second half, we expect profitability to improve and are forecasting a smaller loss for the full year prior to disposals.

Finally, we continue to expect gain on disposals for the full year in the range of £20m to £30m.

The valuation of the Investments' portfolio increased by 5% in the first half of the year to £1.3bn. And I'll talk you through the bridge.

We invested £12m in new and existing projects, including the addition of a multifamily housing project in New Jersey. Cash distributions were £16m, which was lower than the prior year, due in part to the additional costs in military housing, reducing distributions and the loss of yield from assets disposed of in 2023.

The discount unwind increased our valuation by £40m and there was a £16m benefit from operational performance. This was largely due to an increase on US military housing, where lower forecast insurance costs were partially offset by higher expected Monitor costs. Finally, there was a small foreign exchange upside as sterling weakened against the US dollar.

Looking at cash now, which continues to be a good story for us and came out largely as expected for the first half. Operating cash flows were strong and were up 14% compared to the first half last year. Working capital reduced by £76m as forecast. This was due in part to the unwind of a spike in working capital, which we saw towards the end of 2023. Dividends from joint ventures was up £5m on the prior year. And I spoke to the equity we've invested on the previous slide. Pensions and leases were largely unchanged and capital expenditure reduced to £12m.

As a reminder, the Group doubled capex in 2023 to support our growth plans and had forecasted to return to a more normalised level in 2024.

Finally, we bought back £72m of shares in the first half, with share buybacks continuing to be an integral part of our consistent capital allocation framework, which I'll speak to next.

Our framework, which is now in its fourth year, remains unchanged. We prioritise investment into the business and have made one addition to the Infrastructure Investment portfolio in the first half. We remain on track to deliver our 2024 disposals programme, with our ongoing processes expected to complete in the coming months. Our cash remains strong and as covered up front, our interim dividend has increased by 9% and we're on track to complete the £100m share buyback scheme later this year. When combined, dividends and share buybacks total £160m of shareholder returns in 2024.

I'll finish with a reminder of our guidance for 2024, which remains unchanged at the Group level since year-end. Following a strong first half, we expect PFO growth from the earnings-based businesses. Gain on investment disposals for the year is expected to be in the range of £20m to £30m, as we continue to realise value from the portfolio. Net finance income is expected around £30m and the effective tax rate will be close to statutory rates again.

Looking at cash, we expect average net cash to remain close to the £700m posted last year, and to include a working capital outflow and capital expenditure of around £35m.

To conclude, we continue to expect earnings growth in 2024, in line with market expectations, and for growth to accelerate in 2025.

I'll now hand you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive

Thanks Phil. Right, now for the exciting bit. You've seen this many times before, but it's worth sort of repeating. First and foremost, if you think about the business, we think of it in two parts. We've got our investment portfolio, and we've got what we call our earnings-based business.

Our investment portfolio is actually valued at about £1.3bn and as a company in our balance sheet, we carry about £700m net cash on average. If you add those two numbers together, you get to £2bn, which is approximately our market capitalisation.

And you get this for free, £9bn worth of turnover, turning over £200m of profit today, with only a positive outlook in terms of earnings growth going forward.

The nice thing about this portfolio as well is just how it is diversified. You're into three different geographies, you're into multiple different business models, and of course, it's asset-backed by cash and the investment portfolio. What could be better?

So, let's look at some of the potential for the business. And in truth, the most interesting and compelling slide is this particular one. So, if you're going to fall asleep, fall asleep after you've heard the messages associated with this. And it's so important, I've actually written down all the points, so I'm going to stand at my podium and I'm going to actually say each one of them, I'm not actually I'm going to move.

First and foremost, it is a large growth market. There's like £60bn going to be spent on the grid between now and 2030. And if you think that's interesting, when you get to 2030 and to 2035, it's going to be the Wild West. The amount of stuff that's going on is going to be mind-boggling.

The second thing is that we are the largest provider of installing transmission cables in the air and under the ground, and also pylons in the UK. And that might sound particularly boring, but that's a lot of the work that has to be done. And without it, you can't connect all the connectors and the interconnectors and the offshore wind power and the nuclear power and the solar and the wind to the grid. So it's a real important enabler.

Capacity is restricted by people and capability. There's a very interesting statistic. National Grid published that they're going to deliver five times the amount of transmission and cabling in the next 10 years than they've delivered in the prior 30.

Now, what that actually says is that they delivered very little in the last 30, which means that the people to do this work have not been trained up. We actually have over 50% of the workforce in the UK that does those things. So really exciting. We're in a very strong position. And by the way, the reason we are is we've invested in that business and those people over a long period of time.

And I'll just draw your attention to this little thing here. We have a steel fabrication factory, which actually makes sections and suspension for pylons. We approved an investment plan of about £2.5m two years ago. And all of the CNC machines, the equipment have all been installed in order to actually meet the demand that we're now seeing. So it's very good that we're in the right place at the right time.

The other thing that's interesting about this is that realising the demand that's out there the tendering process, which is a two-step tendering process is that we will go in early contractor involvement. We'll look at the scheme, we'll look at the engineering, we'll lay out the scheme, we'll cost it, we'll get a cost loaded schedule. So basically, what we're doing is we're de-risking the whole programme before we commit to deliver and commit to a cost. So in effect, versus our normal business, that's a massive risk reduction that will go on.

What's also interesting is the demand is going to grow at such a level that what it's doing is it's pulling through the resources from our other businesses. So for example, if we win £1bn worth of business in the power area, 25 to 30% of that will actually be utilising UKCS capability. And in light of that, there is an improved margin, but there is also a de-risking of what UKCS does compared to what it would normally do. So that's actually earnings enhancing for us.

And then finally, and most importantly, the funding of this comes through the meters and it actually gets applied to the bill. So it's not prone to the whims and vagaries of Treasury in terms of cancelling half of HS2 and things like that.

So really, really exciting. And if that wasn't enough for you, if I look at generation as opposed to transmission, if you look at nuclear, you know, we're obviously very heavily involved in Hinkley and the marine works and also the mechanical and electrical installation. But that then has a direct read across to Sizewell C, where we've actually put the first shovels in the ground and the government has actually pre-loaded the job with about a \$1bn of capital.

So effectively, Sizewell C, even though it hasn't achieved FiD, is actually starting to do some of the early works in order to make sure we get the schedule.

There's always a debate as to whether or not it will actually go ahead. And there are real funding challenges. But the bottom line is around energy security, it's absolutely essential that it does go.

We're also working on small modular reactors. I'm not personally convinced that there'll be a big, big market in the UK for them. But at the end of the day, we're playing in that area, we're working with Holtec, who've got one of the first approved solutions.

And then Fusion, which is actually a 40-year programme for us is something we want to get involved with, because it will tick over over time, and it will become a big market 10 years from now.

In terms of wind, we don't actually do the windmills, but we do look at the concrete bases, the floating and semi-submersible platforms. But more importantly, there's an awful lot of dock and port infrastructure that has to be enabled in order to make that possible. And it's the same in defence as well. So this pulls through what effectively is our civils capability.

And then in the area of net zero carbon, or carbon capture, we've got Net Zero Teesside, we're working with BP Equinor, and we're actually on feed studies. So in all of these areas, we're effectively being paid for our early work involvement.

And, you know, if I go back, you know, this is real, it's happening today, it's driving revenue, we've got people working in Skye at the transmission here, Peterhead, and the transmission lines to Inveraray and South, we're looking at a lot of work here in the Suffolk area. So this is real business.

And if I look at this and start thinking 12, 24 months ahead, all of these are starting to come to fruition. So and if I look at Fusion, you're looking at 10-year pipeline. So there's a real heavy concentration of work that's actually building today, and we will achieve more momentum next year and the year after and then these other things come into play.

So you just get a feel there's just so much work out there that the industry doesn't have the capacity to deliver it. So our role is actually to sort of work out which orders we want to take and deliver, and which ones that we actually reject, which is a nice place to be in because five years ago, you know, you were actually at the other - it was the other way around, we were looking to take orders regardless.

If I look at our defence business, we're really leveraging what I would describe as nuclear know how and capability, a lot of it learnt at the likes of AWE, but also on Hinkley and the like. And we're really pleased the work at AWE is going well. That's the Atomic Weapons Energy Establishment. It's going really well in terms of the hub that we're building.

On the back of Hinkley and AWE, we were able to be selected as a construction partner for Rolls Royce, which is working on the AUKUS programme. And again, that's a £500bn worldwide programme between Australia, the UK and the US. And again, it's something that we're actually really excited about. And we make a great partnership with Rolls Royce.

What's interesting here in the future is that our backlog in this area is about £1.25bn at the moment. If you start looking at effectively the fiscal work that's going to accompany the non-fissile stuff that we've won, you can double that backlog and more. So there's an awful lot of business still to come. And we're in a great position in terms of having won the non-fissile work to actually win the fissile. So I'm really encouraged about the prospects in this market.

Also, again, I point you to the fact of ports and docks. You know we deal with nuclear, we deal with submarines, and those submarines have to be docked in harbours and have to be maintained and refitted. There's a huge amount of infrastructure that has to be modified in order to cope with the next range and fit out of submarines. So a lot of civil works going on here.

If I look at our other growth area in terms of US Construction, we are finding that we're growing at about 3% in bookings at this moment in time. But our awarded but not contracted, that's

effectively work that we have been told that we've won, but we actually haven't signed a contract on, is up 50% year on year.

And we have to be very, very careful that when interest rates start to drop and these things start to mature into a contract, that we can actually match the demand in the US. So we're seeing good progress there.

Our growth initiatives in the US around airports, prisons, schools, new geographies are all moving ahead very successfully at the moment. So again, and I think that's underpinned by the level of increase in the awarded but not contracted.

In the case of Hong Kong, Hong Kong is dominated at the moment by the airport, the T2 terminal and the automated people mover. That's going ahead and we're moving great volumes of revenue through on that.

We're seeing great success in terms of the commercial, residential and commercial office market where it's private investors. When it gets to what effectively are state funded civil jobs, we're seeing a bit of a slowdown because they've got the same budget problems that we see in the UK. But all in all, we see steady progress in Hong Kong and it's important to us.

If I look at our investment portfolio, I think it's important to look at the amount of activities going on under the surface here. If I look at the progress in the US side, we bought one multifamily housing asset in the first half, just under 300 rooms.

In terms of military housing, which you can see is the most important asset we have in the portfolio. We are looking at lease extensions in order to build circa 700 new houses on three of the bases that we run in terms of Carson, Fort Leonard Wood and Eisenhower. And that's actually a real vote of confidence in our capability by the Army, Navy and the Air Force.

We're also looking at supporting the initiative to actually get all of these military housing bases off grid. What they want to achieve is energy independence. So they're putting a lot of money into solar, into water, into performance contracting type projects whereby they fund the energy reduction, and that energy reduction then makes them to the point where they can get the actual base off grid altogether.

In the UK, Urban Fox was an investment we made about 24 months ago in EV charging. And I'm sure you've all read the press, EV charging is an area where there's great hope for it, but the funding that's needed to make it work and the subsidies hasn't actually materialised. And as you see, that's actually affected electric car sales.

We've had one success in terms of Dundee, but we're holding fast on this strategy because we think the Government in terms of its net zero strategy will actually release the funds and EV charging will roll out. If it does, it could be a very, very good business for us.

Really pleasing to see what we've achieved in student accommodation in the UK. On the back of the 1,400 bed East Slope at Sussex University, we finally closed the 1,900 bed West Slopes project. That's mobilised, it's mostly bought out at this moment in time and it's proceeding apace. So really great to see that one underway and I'm very encouraged by that.

And then finally, if you go back to the time when we had PPP and the like, we had a great capability to build - design, build, finance and operate. And we funded part of the M25 through that. We're hoping that that skill and capabilities can come back into play in the UK, particularly around things like the Lower Thames Crossing and the like. So an important business in our portfolio for us.

So in conclusion, where do we stand? As I said at the beginning, there's real momentum out there in the business at the moment. We're uniquely positioned in a rising tide of infrastructure spend, which the Government need in order to get the growth that they've actually promised.

There is a restriction in terms of capability and demand does exceed supply, under which circumstances, prices and costs will rise, but also risk will actually reduce in terms of our jobs.

I'm confident that the quality of our earnings will continue to increase, they'll be cash backed and that will fund what effectively is our capital return to shareholders. But after we've ensured that we've got the capital needed by the business. To date, we've returned £0.75bn. It wouldn't surprise me by the end of next year if we actually made that number £1bn in total. So I think I'm very optimistic about the outlook for the future.

And on that note, we'll hand over for Q&A.

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Questions and Answers

Jonny Coubrough, Deutsche Numis

Thanks for the presentation. Can I ask, firstly, on US Construction, you set out the growth strategy, I think, either at the last set of results or the previous one. How is that evolving? How many offices have you opened up and how could the footprint change there?

Secondly, you alluded to it earlier on Lower Thames Crossing, but I'm interested on your level of interest to get involved in PPP, in those kind of assets, and also what impact that could have on the civil works that I think you're preferred bidder on?

And then thirdly, on new nuclear, you alluded to potential contract awards there coming. Could you see Balfour Beatty transferring its capability from Hinkley to Sizewell? And could it be a similar size contract for you? Thanks very much.

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Leo Quinn, Group Chief Executive

Right. So in terms of the US, the opening of new branches, I would say, in the magnitude of the business is relatively small. But what I would say is the success we've enjoyed makes it noteworthy. That's the first point. And we've opened branches in Sacramento, Phoenix, Charleston, Jacksonville. And there was one in Texas, which I've forgotten. Oh, Austin, I can't forget Austin. So that's going well.

But what's really going well is the transfer across the US of our different capabilities. So with the likes of Universal, we do a great job for Universal in Orlando. That's transferring into Texas and we're building the new Universal theme park. We do a lot of work for Disney in Florida. That's transferring us over to the West Coast Disney. In terms of airports, we're leveraging our experience at LAX across Raleigh, Sacramento and Jacksonville. So all of those are in play and being delivered at this time. Prisons in Georgia, Southern Georgia and municipal offices are going well as well.

So a lot of those where we have an existing footprint is we've been able to use that capability to expand the footprint. Anything else I'm missing on the US?

Lower Thames Crossing. The answer is we would love to use our expertise in PPP. I don't think it'll ever be called PPP. It will come in another form. But we would love to use it to expand into the right opportunities.

The challenge is really how they want to bring it to market, because the old PPP was a fairly expensive way to fund infrastructure. So they may be looking at a different financial model. I can't comment because I don't know the detail of it.

And then finally on Hinkley, the whole premise around Sizewell is intelligent replication of Hinkley. And to a degree there's a tremendous amount of savings that can be achieved through the lessons learnt on Hinkley.

Again, it's early days, but I would suggest in terms of the construction project, we would be targeting a third of Sizewell. So if you think about that, and that would be larger than our Hinkley activity, but it would be a third of a smaller number because Sizewell should be an awful lot less than Hinkley to build.

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Rob Chantry, Berenberg Bank

Hi, thanks for the presentation. Three questions for me. I guess firstly on Support Services, you mentioned you're starting to book the first few contracts in power, which will double the size of the utilities division. Given you also guide to, I guess, a 6% to 8% range, could you comment on the varying margin differentials across utilities and transportation in Support Services? And as power scales, will that range change?

Secondly, in terms of the US, again, you talked about a 50% step up, I think, in approved not booked business. Can you put that in the context of, I guess, the duration of that contract? When does it start? How long does it last, etc?

And then thirdly, I guess, a higher-level question on the investment portfolio. Clearly, a good source of value creation historically. Can you talk about that kind of thoughts around scaling it, putting more equity in? It's concentration, obviously, heavily in the US at the moment, I guess, £12m equity and £1.3bn portfolio is quite a small number. Talk about your strategic options with regards to what that looks like on a 5, 10-year view. Thank you.

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Leo Quinn, Group Chief Executive

I clearly made the wrong presentation. I should have answered your three questions with slides. I'm not allowed to talk numbers, am I, Phil?

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Phil Harrison, Chief Financial Officer

No, you're not. That's right. Support Services, when you look at it, road maintenance, particularly, is our lower margin business. Power, clearly, is our highest margin business. But aspects of our rail business can be just as profitable as power. So it depends on the power mix or the mix that we have of rail and power. But that's roughly as it is.

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Leo Quinn, Group Chief Executive

So given I'm not allowed to talk numbers, my ambition is double digit returns in that business. But Phil will not ascribe to that.

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Phil Harrison, Chief Financial Officer

Correct.

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Leo Quinn, Group Chief Executive

The second one was the 50% step up in the timing. How long is a piece of string? You know for example, we can be involved very, very early and be selected. And then depending on the financeability of the project, it gets delayed.

So for example, we've got projects we've had for a couple of years on the books whereby they're just waiting for interest rates to fall. And whereas you know our forecast internally was you'd see some relief on interest rates in the first half, your Fed still hasn't moved. So some of these projects are dependent on the financing rate. So there's a little bit of flexibility there around timing. So very difficult to say.

I think the point would be is - our award if you're not contracted would probably be if you were getting double digit growth in that, that would be good. But to see it up by so much is well, it's encouraging on one hand, it's worrying on the other, because we in certain parts of the US at

the moment, we have been offered work, but we don't have the delivery - the teams to deliver it. So we're actually having to turn it down. So it is worth remembering capacity is getting strained.

And then in terms of the investment portfolio. Do you want to have a crack at that? Or?

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Phil Harrison, Chief Financial Officer

Yeah, no, I can.

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Leo Quinn, Group Chief Executive

It's really difficult. So you should do that.

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Phil Harrison, Chief Financial Officer

But just going back on the US, though, the one thing that we are encouraged by is that the awarded but not contracted today is increasing. So it's not like we're sitting just on old awarded but not contracted from two years ago, we've actually, you know, got new awarded but not contracted, especially in state and federal. So we think that's - that's positive.

And then when we look at investments, we, we typically have looked at investing about £50m a year, and then getting two times return from our, from our investment. As always, we're going to be very disciplined. And I have to say the investment business is disciplined about hitting our hurdle rates. So we've got to get a two time to return, we need to have a greater than 15% hurdle rate on IRR.

So these are tough asks that we make of the business. And therefore they take that discipline quite seriously. Because that's the kind of returns we need from this business where we don't have a low cost of capital. So we need to see these returns.

I would say that we still see that the US is, is more favourable to him to investment at the moment. So I think while equity will more likely go to, to the US, that's dependent on clearly if something happens with the UK Government here, and we see investment opportunities, and clearly we have a lot of skill still in the UK of being able to do this, then we'd, we'd look to deploy capital here as well. But we've got to get on, we have to hit those return hurdles. Otherwise, we won't invest.

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Leo Quinn, Group Chief Executive

Joe.

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Joe Brent, Panmure Liberum

Good morning. Three questions, maybe one at a time, if that works. Firstly, could you give us an indication of when you think monitoring costs on military housing could end?

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Leo Quinn, Group Chief Executive

Do you want to do it?

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Phil Harrison, Chief Financial Officer

I can get that. The Monitor, it's a three year - three-year cycle. This is the second year. So Monitor costs should complete in 2025.

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Joe Brent, Premier Liberum

Thank you. And on the student housing, bid costs. Yeah, I know that's something we were quite optimistic about. And you can't win everything. But could you just tell us a little bit about the circumstances of not winning that?

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Leo Quinn, Group Chief Executive

You or me?

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Phil Harrison, Chief Financial Officer

You, I think.

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Leo Quinn, Group Chief Executive

I'll tell you, when the project was first initiated, interest rates were very low. And there was an equity contribution back to the college because of that. In the current interest environment, in order for the scheme to proceed, the college would have to make an equity contribution into the project. So the cash flow from the college's point of view has changed because of rising interest rates. And that's basically the college didn't have the funds.

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Joe Brent, Premier Liberum

Thank you. And finally, on Hong Kong Terminal 2, could you tell us when that work peaks?

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Leo Quinn, Group Chief Executive

Well, Terminal 2 is scheduled for a soft opening at the end of this year. And there will be work that will carry on after that. But Terminal 2 will finish, scheduled at this moment in time, the end of the year. The APM will connect up to it. So probably another year to run of revenue will come from Hong Kong.

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Phil Harrison, Chief Financial Officer

So T2 is peaked now and APM runs to '26.

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Joe Brent, Premier Liberum

And can Gammon revenues grow next year, given that T2 is peaked?

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Leo Quinn, Group Chief Executive

Look, I think Gammon's revenue will normalise back to a normal level because those projects, the airport is such a large project.

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Joe Brent, Premier Liberum

Thank you.

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Graham Hunt, Jefferies

Hi. Just two questions from me. First, on UK Construction, the 2.3% margin was kind of a standout positive for us. I'd just like to understand the moving parts there. What was so good about the half? Was that fewer loss-making projects or was that more mix from HS2? And kind of an update on what the longer-term outlook for UK Construction margins could be. Are we still moving towards the upper end of the 2 to 3?

And then a higher-level question on UK infrastructure. We hear a lot about the inefficiencies of the broader infrastructure market in the UK. I just wondered if you could speak to the new government that's come in and Balfour Beatty's role in terms of delivering infrastructure in a more efficient way that could be a benefit to your business model.

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Leo Quinn, Group Chief Executive

You do the first one, I'll do the second one.

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Phil Harrison, Chief Financial Officer

Well, I thought you were going to do the first one. It comes from the CEO cockups.

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Leo Quinn, Group Chief Executive

Well, look, I'm confident that the business has the capability to deliver a 5% return. Phil, on the other hand, thinks that 3% is euphoric. So we have a difference of opinion about what the potential of the business is.

But look, there's no doubt - it's a curious egg. The business is fantastic in parts, but every once in a while, you do pick up a bad project and that does lower returns. What we're seeing is that we're better at managing risk. You know our process in terms of what we engage in is pretty robust these days. And we don't do things like gas laying pipes in London or high-end residential properties in London. And there are other things that we bar activity in.

So I would say that I think you've committed to 3% for 2025?

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Phil Harrison, Chief Financial Officer

Not for 2025.

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Leo Quinn, Group Chief Executive

For 2026?

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Phil Harrison, Chief Financial Officer

Progressing towards that.

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Leo Quinn, Group Chief Executive

Progressing. So I'd say, look, at the end of the day, I think the trajectory is nailed on. I'd be very surprised if a blind man with a white stick couldn't deliver 3% in 2026.

And then in terms of infrastructure, there is no doubt, if you haven't read a book called How Big Things Get Done by Flyvbjerg, you should read it. But it is very interesting that you know you can deliver infrastructure much, much more cost effectively than the way we do it today.

And some of the lessons from the book, for example, is think slow, act fast. And it's a great example that if you plan properly and you do the engineering and design up front and you find an error or something you want to change, it's a rubber and a pencil, it's \$100 an hour. If you do it on site with 2,000 people mobilised and all the plant and equipment, it ends up with millions of dollars a day.

So part of thinking things through and planning them out properly is really key to delivering cost effective infrastructure. That's why, for example, the likes of Hinkley, using that expertise for Sizewell will bring massive benefits through to the Exchequer. And like the Lower Thames Crossing, we're taking the expertise from HS2, from the M4, the early works involvement in terms of getting in early and fixing things.

So in the case of Sizewell, for example, so the success of Sizewell schedule will depend on getting the rail hub and the road in early because the earth moving has to avoid the local town or village. So enabling that now, and that's what the Government's paying for, is really sensible. Diverting the utilities, whether they be fibre, gas pipelines, electric power, moving those all out of the way so you can then bring the road through, doing that early is really, really important.

So planning and good design and early involvement, which is what the Government is doing, will actually take massive costs out of infrastructure spend. So we can do all of that. And then at the back end, our digital capabilities make us safer and more efficient with better assurance around what we're doing.

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Graham Hunt, Jefferies

Thanks.

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Jim Ryan, Head of Investor Relations

Leo, we've got a question on the conference call.

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Telephone Operator

We have a question from Gregor Kuglitsch, with UBS. Your line is open. Please go ahead.

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Gregor Kuglitsch, UBS

Thank you for taking my questions. I've got two. So you were sort of suggesting at the very end of your statement that you wouldn't be surprised if you had £1bn of capital return, which I guess arithmetically means 250-ish for next year. Just want to understand if that's what you're saying.

And then the second question is, I was looking at your LTIPs and specifically on the cash. So if I look at '25, I think your target cash was £350m, which is sort of maybe double what sort of targeted in the last few years. Can I just understand why that is? Why do you think the Remuneration Committee went for such a high cash target? And how does it tie up with your own plans? Thank you.

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Leo Quinn, Group Chief Executive

Right. So I'll answer the first one. So what I should ...

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Phil Harrison, Chief Financial Officer

Can I start with, you should never do the numbers.

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Leo Quinn, Group Chief Executive

Yes.

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Phil Harrison, Chief Financial Officer

And then you can answer the question.

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Leo Quinn, Group Chief Executive

So what I would say is I would say circa £1bn. You know, it's I wouldn't commit or make a forecast in terms of what our return is. But the direction of travel is we've done sort of £0.75bn to date. The idea of sort of being £50m or £100m off £1bn would be the right order of magnitude would be in the right area. So are you happy now with that?

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Phil Harrison, Chief Financial Officer

No, we'll decide this at the year end. And then that's our policy. And that's what we'll do.

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Leo Quinn, Group Chief Executive

And then in terms of the LTIP, would you like to answer the LTIP?

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Phil Harrison, Chief Financial Officer

You badly negotiated our LTIP is all I can say.

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Leo Quinn, Group Chief Executive

So there you are. It was a badly negotiated LTIP. I'm sure there's some science behind it somewhere. So does that help, Gregor? Or would you like further clarification?

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Gregor Kuglitsch, UBS

Well, I mean, obviously, I'm asking partly because, you know, the working capital position that I think is still expected to unwind, it looks, you know, obviously very challenging to achieve unless I'm missing something. So anything I'm missing?

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Phil Harrison, Chief Financial Officer

Well, I think, clearly, we're going to, you know, working capital unwind. But also, we've got new business coming - clearly, we're seeing, especially in infrastructure and energy. So we're expecting some of that to also come into play. So as we get to '25, '26, we'll kind of recalibrate where this all of this working cap and new business is coming.

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Leo Quinn, Group Chief Executive

There is an expression that when they have you committed to something, your heart and mind soon follows. So, you know, if that's the target that's laid out there, there has to be some science behind it. And of course, that would be a motivator to actually achieve that number, wouldn't it, Phil?

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Phil Harrison, Chief Financial Officer

I'm very motivated.

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Gregor Kuglitsch, UBS

Thanks.

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Leo Quinn, Group Chief Executive

Thank you.

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Jim Ryan, Head of Investor Relations

Okay, so we have a question on the web as well. So Andrew Nussey at Peel Hunt. Please, can you expand further regarding the potential use of private finance in government related projects? Historically, the returns on PPP were largely through equity investment and refinancing gains rather than construction. So given the focus on construction returns and your cost of capital and hurdle rates, do you see Balfour playing more of an arranger role?

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Leo Quinn, Group Chief Executive

The first one I'd say, look, it's far too early to say how the Government's going to come to market in terms of private finance. I think, again, the direction of travel is positive. We certainly want to be involved in that where our capabilities match.

Remember, our cost of equity is higher than other forms of cost of equity. So there has to be something which is tied up with construction delivery for us to be competitive. So let's wait and see what the Government comes out with and let's see how we can play to best effect.

And on the other one, Phil?

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Phil Harrison, Chief Financial Officer

There wasn't another one.

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Leo Quinn, Group Chief Executive

No? Is that good enough? Okay, I'll let you off that one.

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Jim Ryan, Head of Investor Relations

I think that's the end of the questions.

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Leo Quinn, Group Chief Executive

Great. Well, look, thank you very much for coming and sort of forsaking your holidays. I hope we were worth it.

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