

2010 Half-year results

Ian Tyler presentation script,
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Thank you Duncan.

I would like to do three things this morning.

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First, I want to give you our view at a high level of global infrastructure markets and how we have shaped our business to address those markets.

[BUILD] Second, I want to give you an update on PB and review some of the major opportunities across the Group which are now open to us.

[BUILD] And lastly, I will give you some thoughts on the longer-term direction of the Group. Because, as we have said before, our focus as a management team is unequivocally on delivering value over the long-term.

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Infrastructure is a long-term business and we continue to believe that growth in expenditure on infrastructure creation and renewal will exceed growth in GDP over the next 15 to 20 years in our existing markets and beyond.

[BUILD] That there is an infrastructure deficit in many developed economies is indisputable. The necessity to build and replace social and civil infrastructure in markets such as power, water and transportation will be a key driver of economic growth.

In the UK alone, a report by Treasury earlier this year forecast that demand for investment in infrastructure here in the UK is expected to be between £40 billion to £50 billion per annum until 2030. That's around 30% above recent years in real terms of which by far and away the biggest increase comes from the energy sector.

Interestingly, if you look at the US market, which is around ten times the size of the UK market, the outlook is broadly similar.

[BUILD] But the need to create infrastructure is even more evident in the developing economies of the world.

Over the next 10 years, the most exciting infrastructure markets will be in countries such as India, Brazil and, of course, across China and other South East Asian countries as they drive ambitious plans to develop their social and industrial fabric.

In positioning our business firmly in the infrastructure markets we are in an environment with many excellent growth opportunities.

Of course, it is also clear that private capital will play an increasing role in the next few years as governments balance their need for infrastructure to drive economic growth against their need to control fiscal deficits.

Against this background, our objective is to shape our business to capitalise on these huge opportunities, and that is precisely what we have been doing over the last few years.

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As you know, we have now created a substantial world-class group of businesses which operate in, and are now broadly-balanced across, the infrastructure lifecycle.

[BUILD] In professional services, we are a global player in project management and design, and a market leader in transportation and power.

[BUILD] In construction services, we have market-leading businesses in the UK, the US, Hong Kong and the Middle East and a leading position in the international rail market.

[BUILD] In support services, we are focused on government and regulated industry customers and are well-established as a leading provider of facilities management, business services outsourcing, utility and rail services and highways management.

[BUILD] In infrastructure investments, we are the leader in UK and US PPP, with a strong track record of developing and financing projects over the last 15 years.

That range and breadth of capability is unique and positions Balfour Beatty as a world-class infrastructure business.

[BUILD] But in addition to each of these divisions being strong in their own right, we have the ability to create additional value through the combined capability of the Group when our businesses come together.

We are now one of only a few companies internationally with the capability to deliver complex infrastructure projects at conception, feasibility and financing through to design, construction, operations and maintenance.

This means that as infrastructure projects become more complex, we take away interface risk from our customers.

This ability to provide a joined-up approach plays to exactly what major infrastructure owners need from their trusted suppliers and, in our experience, are increasingly demanding from them.

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Now let me turn to PB in some more detail.

PB was a game-changing move to round out our capabilities across the infrastructure lifecycle to address those customer needs I have just described.

We are very pleased with the way in which PB has been integrated into the Group and how it has performed as part of Balfour Beatty.

Following the integration of Heery in the US and Balfour Beatty Management in the UK into PB, our professional services business now consists of 14,000 people working across 80 countries. The integration process has gone smoothly and the cultural and strategic alignment of the two businesses is very strong

Financial performance in the first half has been slightly ahead of the acquisition plan and the order book has grown.

And this is despite short-term weakness in its core US transportation market as a result of the delay to the re-authorisation of the US transport bill. This is continuing to impact the flow of particularly the larger projects but we believe it is likely to be a short-term phenomenon. We expect to see increases in funding over the medium-term.

It is worth noting that the House of Representatives recently passed an Appropriations Bill which, if agreed to by Senate and the President, would increase transport funding in 2011 by around 9%.

Other areas in the US, particularly in Federal markets, are holding up well.

Meanwhile, we are seeing good growth prospects in Asia and in Australia, where PB operates in the transport, power, mining, water and building sectors.

New business wins in the first half included programme management on the Illinois high-speed rail programme, along with projects on the Port Columbus International Airport in Ohio and the Lake Washington School District Capital Building Program.

Outside the US, wins included architectural and engineering design to support the ongoing expansion of the Singapore Mass Rapid Transit System, engineering consultancy with the Abu Dhabi water and electricity authority, as well as feasibility and design for a major part of the Australian Government's solar flagship programme.

With strong first half performance and good prospects for the second half, we are even more confident that we will deliver both our short and medium-term financial objectives from the acquisition, and our longer-term strategic ambitions.

As I have said before, PB is key to our professional services strategy as an integrator across the infrastructure lifecycle and the acquisition opens up new opportunities for us.

I want to spend the next few minutes highlighting some of the specific opportunities and projects that we now see in front of us as an international infrastructure business.

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In the US, we are part of the team which has been selected as preferred bidder to construct the Eagle commuter rail project in Denver.

Along with our partners, we will be responsible for the engineering, procurement and construction of a major extension to Denver's rapid transit system.

The project involves not just the construction of the static infrastructure, but also the procurement of rolling stock, systems integration and the operation and maintenance of the entire system for around 30 years. It draws on skills from across all sectors of our business.

The Eagle project is part of a much bigger, multi-billion dollar transit expansion programme to build and operate new commuter and light rail schemes in the Denver area.

There are likely to be many other such schemes in the US. And our integrated expertise - in rail engineering, allied to our professional services and PPP capabilities - means we are well-placed in this market in the future.

Indeed, as the US starts to look at the viability of High Speed Rail, we have already established ourselves as the market leader with PB now carrying out around half of all feasibility work in this field across the US.

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In the UK, we have today confirmed a contract working with BAA on their Terminal 2 Concourse B development at Heathrow.

BAA is a long-standing customer and we have enhanced the range of capabilities we provide to them by including resource and expertise from PB's US airports team on this latest phase of work.

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In India, which is a relatively new geography for Balfour Beatty, PB is currently working on, amongst other things, the extensions to the Delhi and Mumbai Metros and the redevelopment of Delhi Airport.

But, we are now also beginning to look more widely at an involvement in the infrastructure market.

[BUILD] We have formed a joint venture with GVK, one of India's leading infrastructure companies, to bid for road projects let by the National Highways Authority of India on a build, operate and transfer basis.

These are massive, long-term projects.

There is simply no way we could have considered getting involved in, or been able to be competitive, on these projects as a downstream contractor.

[BUILD] But with the design and programme capabilities we now have through PB supporting our investment business, there is a lot of potential value we bring to the joint venture.

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Let me now turn to the UK power market.

In the UK nuclear sector, we are already working on the early contractor involvement phases of decommissioning projects at Sellafield and are one of a handful of companies with the scale, resources and expertise to support the nuclear new-build programme in due course.

[BUILD] In the broader UK power market, there will be substantial opportunities linked to offshore generation and renewable energy.

[BUILD] Last week we were appointed as preferred bidder to acquire and operate the £163m Thanet high-voltage, offshore transmission system, pulling together our investment, operations and maintenance and professional service capabilities. Ofgem estimate that over the next 15 years, the UK will invest around £200bn in the UK's power infrastructure with renewable energy and offshore being one of the largest components.

The success in our bid for Thanet is not only a valuable opportunity in its own right but it is also an important first step in what we believe will be a very important market for us.

Furthermore, it illustrates the changing nature of our investment business, as we place less emphasis on structured PFI and PPP assets – although these will continue to be important to us – and more on wider classes of infrastructure assets.

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I hope you can see from these few examples how the business we have created and the capabilities we now have within the Group gives us access to a much wider range of markets and geographies. I'll come to where all this takes us in the medium term in a few minutes but, before I do, let's just reflect on where we are today.

[BUILD] We have reported continued earnings growth.

[BUILD] We have increased our order book to £14.6 billion with some exciting opportunities to come. The projects in Denver and Heathrow, to give two examples, will be recognised in our order book during the second half.

[BUILD] It is also worth noting – and you've heard me say this many times before - that we don't include preferred bidder positions in our order book. And we only include the initial phases of multi-stage projects. In other words, our order book is a conservative number and is a secure figure relating to signed contracts.

[BUILD] So we have created the platform from which we are extremely well-placed to take advantage of the growth in infrastructure markets across the world, and we have a strong balance sheet to enable us to invest further.

[BUILD] The inevitable consequence of this strategy is that, although we remain a major business in the UK, we are less and less exposed to the UK construction market.

There has been a great deal of discussion in the UK about the abolition of the government's Building Schools for the Future programme – or BSF.

We were the largest player in this programme but, to put it in context, BSF will account for around 2% of our total revenue in 2010 and 3% next year. The majority of this is in projects which have already reached financial close and which will continue. Furthermore, the sample schools on all projects in which we have been appointed as preferred bidder have now all been approved to go forward.

There are clearly short and medium-term questions about the level of UK public sector investment in infrastructure and how such investment will be funded.

This is clearly a matter of concern to us but, today, the UK is one market among many in which Balfour Beatty operates.

I made a similar point last year when we discussed Dubai. It underlines the strategy we have followed and the benefits of a broadly-spread portfolio.

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I have already mentioned as significant opportunities the power market. But outsourcing, an upturn in the UK commercial market, energy from waste, and greater drive towards more sustainable solutions all present us with significant opportunities in the UK.

[BUILD] Add to that the opportunities for growth in the US, in South-East Asia and, in the longer term, in the emerging economies to which PB now gives us access, and I hope you agree that it is important to keep concerns over the inevitable impact of the comprehensive spending review on individual parts of our business in proportion.

[BUILD] In addition, our performance is underpinned by the benefit we expect to deliver from our cost efficiency programmes which Duncan spoke about earlier.

[BUILD] Of course, when discussing market trends and revenue opportunities, I have focused on the medium term. What I cannot do is predict the exact timing or the impact of rises and falls in the many individual markets and programmes in which we are involved.

This means I cannot predict the Group's exact growth trajectory over the next few years. What I can say though is that I am absolutely confident of our ability to deliver growth over the medium term and our progressive dividend policy reflects that confidence.

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So what will Balfour Beatty look like in the years to come?

[BUILD] Over the next two to three years, I expect that we will see significant growth from our professional services business, both organically and through acquisition. This reflects both its pivotal position in our overall strategy and the ongoing process of consolidation in the global professional services market.

[BUILD] Over the same period, I believe that, while it will always be an important component of our business, the relative proportion of business from the UK construction market will fall.

[BUILD] We see scope for further growth in the US construction market as the state infrastructure and commercial markets recover – probably in 12 to 18 months’ time.

[BUILD] At the same time, I believe we will see strong, mostly organic, growth within our support services business.

[BUILD] We will continue to generate increasing value from our infrastructure investment and development activities as we broaden the classes of assets in which we invest and further use the skills and knowledge of PB to enhance our capabilities.

Net, net we will see the balance of our business shift away from our UK construction activities, and move towards markets in the US and Asia and towards professional and support services with the former playing an increasingly central role in our strategy.

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So, let me summarise.

[BUILD] We have created a powerful Group, capable of delivering services to customers across the infrastructure lifecycle.

We have strong, market-leading businesses, which are mutually reinforcing. [BUILD] Collectively, they make us a leader in the delivery of infrastructure.

[BUILD] We are increasingly diversified, by market and by geography, which give us real resilience and provides access to more opportunities.

[BUILD] Our balance sheet strength and strong record of customer delivery underpin our position and are key competitive advantages.

[BUILD] The breadth and depth of our business, and our proven capability to manage the impacts of market change, means that we are uniquely placed to take advantage of the inevitable growth in the demand for infrastructure and the exciting opportunities in front of us.

[BUILD] We remain confident about the outlook for the business.

Thank you. We will now answer your questions. Please wait for the microphone and state your name and organisation before you ask your question.