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Presentation script

<u>Slide - Title</u>

Good morning ladies and gentlemen.

<u>Slide - Agenda</u>

I am always conscious at conferences that I am facing an audience with varying levels of familiarity with Balfour Beatty.

For those who are perhaps *less* familiar with us, I'll start with an overview of the business. I'll point out not only what we do, but also what we do differently from our peers, and what we bring to the industry.

In the light of that introduction, I can then talk about our prospects under three headings:

- The growth dynamics influencing the opportunities for our business at present and in the near future
- The margin drivers and the self-help actions we have put in place to strengthen our performance in this difficult economic climate
- And finally I'll pull these factors together to give you a feel for our financial targets over the next four to five years.

But to begin with, let me give you an update on our story so far…

<u>Slide - The natural partner for owners and operators of complex and critical assets</u>

Over the past few years, we have followed a strategy of expansion, adding both geographic markets and capabilities to our business.

Our aim has been to transform Balfour Beatty from a UK construction company into a global infrastructure business.

This is how we want to be seen: as the natural partner for owners and operators of complex and critical infrastructure assets. But what exactly does that involve?

<u>Slide - Focused on complex and critical assets</u>

Well first, let's define infrastructure. We divide it into two categories:

- There's social infrastructure – which includes hospitals, schools, data centres, military housing and similar building assets.
- And there's civil, or economic, infrastructure – which includes transport, power, water and communication systems.

All these are complex and critical assets, albeit in different ways.

The pie chart below is a breakdown of our revenue by type of infrastructure. The blue segments on the left are social infrastructure and the pink pieces on the right are civil infrastructure. As you can see, our revenue splits pretty well 50/50 between social and civil infrastructure. Only a very small proportion of our business falls outside these two categories.

Slide - Core skills make us the natural partner

So what is it that makes us a 'natural partner for asset owners'? It's the skills we bring to bear.

- Customers come to us in search of superior technical expertise, or asset knowledge. With capabilities ranging from designing and building through operating to financing infrastructure assets, we can offer them a depth of asset knowledge that is second to none.

  A key reason for this is that we transfer knowledge from one asset to another across the globe. For example, we've built an understanding of hospitals through PPP projects such as Birmingham and Fife, where we take the assets from inception to completion and may operate them for 30 years. We've now been able to transfer that knowledge to Gammon, our joint venture in Hong Kong.

- Our customers attach real value to that knowledge because the assets they own and operate are complex. Wherever they are, their business and operational needs are increasingly complex, and in most cases the environment in which they operate is challenging.

- One way to reduce interface and delivery risk on complex projects is to integrate the supply chain – and the other stakeholders such as owners, users and regulators that impact the project. More and more customers want us to do this for them – either to deliver a new asset or operate an existing one – and our skills in this area are world-class. This is particularly evident in public-private partnerships, where we combine skills in development, financing, construction, operation and maintenance.

- And finally, our growing international footprint means we now have local knowledge in over 70 countries.

We genuinely believe that these core skills make us a natural partner to the owners of complex and critical assets across the globe.

Slide - A significant global infrastructure business

As a global business we face global competition. This chart shows our position among the principal infrastructure players and the peers we come across most often in the global markets.

As you can see, we're one of the top players in infrastructure. And no other company has our intensity of focus on infrastructure assets. That is our purpose in life. So let's now look at the global infrastructure markets and where we fit in.

Slide - Global infrastructure market is expected to be £20+ trillion over 2010-20

The world's infrastructure markets promise strong long-term growth. Over the next 10 years or so, they are expected to be worth over 20 trillion pounds. Forecast annual growth rates range from 3.5% to 14% – driven by powerful factors such as population growth, urbanisation in emerging countries and the need to renew ageing assets in developed countries. And in this weak economic climate, some governments may use infrastructure spending as a form of stimulus.

The opportunities are broadly spread throughout the world, and across a range of sectors. But what's very clear is that Asia Pacific accounts for almost half of the forecast demand. We're bearing that very much in mind as we go forward.

Slide - Our growing international reach

In the past few years we've grown our presence outwards from the UK. This is the picture today.

In the US we're a sizeable player in construction, and in design and programme management.

In the rest of the world we have developed some very strong positions through construction joint ventures, particularly in Hong Kong and in Dubai.

We now also have powerful access to international markets through professional services, where we generate revenue in over 70 countries. I'll come back to this later.

Slide - Diversified end-market exposure

Infrastructure is a diverse market, and we have different strengths in each region. These are our largest markets by region and type of activity, and over the next few minutes I'll talk about some of them in a little more detail.

Slide - Growth dynamics

My aim today is to cover a few topics that we believe are in investors' minds. In particular: where are our growth opportunities going to come from in the next few years?

I'm going to look at this under three headings:

- Infrastructure spending by governments
- Power investment
- And growth or emerging markets.

Slide - Government spending in the UK

First, let's look at government spending in the UK.

In October last year the UK government confirmed its plans to cut public capital expenditure. These cuts which amount to some 30 to 40% are expected to be phased in over a period of two to three years.

We are now seeing the impact of these cuts. But it's important to remember that Government capex impacts only about half our construction business in the UK. The rest comes from utility companies and other regulated bodies with disparate budgets, and from private customers.

To offset the cuts we have been shifting our efforts into commercial and power markets. I'll come back to the power markets in a few minutes – in the meantime, just a few words about commercial markets.

We are seeing commercial activity pick up, particularly in London. However, while these are encouraging signs, it's too early to talk about a UK-wide recovery in commercial activity.

Slide - Transportation spending in the US

The US government is another customer with a major impact on our business. I'm going to look at two areas that have particular influence: one is transportation spending, which mainly impacts on our professional services activity, and the other is Federal spend on buildings which largely affects our US construction activity.

Almost 10% of our group revenue comes from designing and managing the construction of infrastructure assets in the US. Most of these are transportation projects in roads, rail, bridges and airports.

We benefit from high levels of public transportation funding with long-term visibility. So what's been happening on that front?

Slide - Extensions rather than re-authorisation

The six-year Transportation Bill expired in September 2009. It has still not been re-authorised, and spending is being funded by extensions to the previous bill.

This undoubtedly has an impact on our Parsons Brinckerhoff business. But PB has been here before.

This chart shows PB's revenue development, with markers where Federal Transportation Bills have been signed or extended. Clearly, authorisation of the Bill gives the states the long-term visibility of funding and encourages them to start large projects – but what's clear is that long periods of extensions such as in 2004 to 2005 have not stopped states from spending. Let me explain why.

Slide - Majority of spending comes from local sources

The current Federal budget is around $3.8 trillion. Of this, only 3% is set aside for transportation. What matters most to transportation spending is the large *revenue* pool the states and local governments collect and spend, amounting to $2.7 trillion dollars. Over 50% of all capital funds and more than 80% of total funding for public transportation comes from state and local sources.

So, to put things in proportion: a 30% cut to the last transportation bill would have been worth about $17bn – which is less than 10% of the $230bn the states actually spent on transportation in 2008.

Slide - Different ways of funding

That's all very well, you may be thinking – but state finances are also constrained by depressed tax revenues. You are right. The states are in very different places with regard to their finances. Some have deep deficits. Other states – like Virginia – have been much more disciplined, partly due to their legislation, and are in good shape.

As you'd expect, different states are looking for different ways of financing their infrastructure needs. Their electorates are also looking at the problem differently. Over 80% of state and local referenda were approved by voters in November 2010. Proposals for increased tolling on the existing interstate system could bring states billions in new transportation funding if they're approved.

Another promising development for us is PPP. Today, 29 states have PPP legislation in place and others are bringing new legislation forward. In addition, 32 states have established State Infrastructure Banks to fund transportation projects.

Slide - Federal spending in construction

Let's turn now to construction. Our US construction business is quite small in transportation and rail, but very strong in buildings. The building business has a very good track record of adapting to market conditions. Since 2008, when commercial activity started to decline, we've moved into the federal market. By acting quickly we gained advantage in securing a very substantial order book of federal building orders in 2010 which are supporting revenue.

There is however still excess capacity in the market. This has squeezed margins and limited our historic ability to capture higher-margin niche projects. We would certainly benefit from a pick-up in commercial activity once bank financing is more available.

Slide - Power investment

Although power does involve government spending, there are two reasons for treating it separately.

Firstly, the investment is funded by not only governments, but also the regulated industry and the private sector, and the contribution of the latter is increasing.

Secondly, power is a vertical market that we look at globally and across all our capabilities. As you would expect, we are technology-agnostic: we can play a role in traditional coal and gas-fired plants just as well as in nuclear and offshore wind.

Slide - Focus areas in the power supply chain

Our activities extend across the whole power supply chain. But our widest range of capabilities and broadest international coverage lie in generation and transmission.

Let’s start by looking at the UK market.

Slide - Need for change

The UK needs huge investment if it is to meet basic demand in the years to come. Exactly how much is a matter for debate. Ofgem, the energy regulator, says £200bn – though it’s hard to imagine how that could be funded.

What we do know is that 25% of the existing 80GW generation capacity needs to be retired before 2020. Also, the UK has signed up to clean energy requirements requiring some of the new generation capacity to be from cleaner, more efficient sources such as nuclear and wind.

Given population growth and changing patterns of energy use, more investment in UK power is inevitable, in both generation and transmission. According to the Department of Energy and Climate Change, £110 billion must be spent in the next 10 years alone – partly on traditional coal and gas-fired generation, and increasingly on cleaner technologies. We intend to play a part no matter which technology is being used.

Slide - Offshore wind power

One area of opportunity for us is in wind power. There is significant political support for wind, to meet carbon targets, and both government and regulator are looking to credible, competent players in a fairly fragmented market.

As preferred bidder for the two big offshore transmission assets in Thanet and Greater Gabbard, we are about to become a significant offshore transmission investor in the UK. Our support services division is already active in maintaining transmission assets and we are currently evaluating opportunities to broaden our capabilities in transmission and cable-laying.

Slide - Nuclear power

In nuclear power, the UK has nominated eight potential sites for new generation capacity. Hinkley Point is closest to fruition, having completed its public consultation in August 2011. We have been working with Vinci of France for the past two years. We are closely aligned with Areva and expect to play a significant role at Hinkley Point.

EDF aims to build another station with two generating units at Sizewell. The consultation for this station is ongoing and we will be well-placed to take part.

Slide - International power – Transmission and distribution

Internationally, the energy transmission and distribution market is very big indeed. Parsons Brinckerhoff is a leading consultant in power, particularly transmission, out of its UK office. Downstream, our support services utility business is a leading international transmission engineering and construction player.

Underlying growth in the transmission market is strong. It is driven in emerging markets by economic growth, and in developed markets by ongoing spending, the green agenda and renewables. What's more, a global shortage of skilled resource is resulting in barriers to entry and high margins for existing players.

Slide - Growth markets

On the world map I showed at the beginning of my session, we saw double-digit growth forecast for South America, Asia and the Middle East – against 3.5% and 4% in North America and Europe. Not surprisingly, we are very keen to develop our business in those regions.

Our current position is that we have very successful joint ventures in Hong Kong and Dubai. These are good construction businesses that we have built with local partners.

Going forward, our emerging market growth strategy is based on leveraging PB's experience and relationships in over 70 countries and our capability in project finance. Through these strengths, and by working with local partners case by case, we believe we can improve our penetration of these markets over time.

We have been exploring opportunities in the Gulf States. We also see opportunities to follow PB's mining customers into places such as Brazil and South Africa.

Slide - Growth in India

…and then there's India.

PB is already active in India, with 205 employees and two local offices. We see opportunities in the Indian PPP market, and on Monday we formally opened our Balfour Beatty India operation. We have also signed a memorandum of understanding with Tata Projects to jointly pursue infrastructure opportunities in India and sub-Saharan Africa.

This is a very good example of using our wide-ranging capabilities and global presence to pursue a significant role in delivering infrastructure solutions in a growing market.

Slide - Margin drivers

Our review of current growth drivers for our business shows a mixed picture. There are both positive and negative dynamics, with varying impacts and time frames.

So before outlining our expectation for the future, I should also point out the margin drivers of the business. We can influence these more directly than our growth drivers.

Slide - Efficiency and cost reduction

In a low-growth environment it is more important than ever to take cost out of the business to remain competitive.

In the UK we launched a cost reduction programme in August 2010. We are on target to achieve £30m by 2013 through shared back office and procurement programmes.

In our construction businesses across the board, a significant proportion of our cost structure flexes naturally, due to our prime contractor model. This natural process does not exist in professional services, however we are protecting margins there by aligning the cost base to lower volumes in the UK.

And in all of our regions we are working to increase cost-effectiveness be it through procurement, overhead or in professional services billability.

Slide - Economies of scale

Support Services is our highest organic growth segment. We are seeing a steady growth in activity – particularly in large integrated contracts, local government outsourcing and many pockets of the energy sector. Profit performance tends to lag this growth due to mobilisation costs – but over time this growth should lead to economies of scale that benefit margins.

Slide - Generating income from PPP portfolio

Another source of income is our PPP portfolio. Last year we started a programme of selective, phased disposal of the mature assets in our portfolio. We intend do this regularly, generating probable gains of 20 to 25 million pounds a year to supplement trading profit and support our progressive dividend policy.

In the first half of this year we made one disposal at more than the Directors' Valuation, earning a book gain of £14m. We expect to reach our annual target by the end of the year.

Slide - Group's financial targets

Over the past 20 minutes or so, I have tried to set out where we expect our growth and profits to come from in the next four to five years. The big question is: where will that take us?

This table summarises all those points I've raised, and some I hadn't time to cover.

Our organic growth expectations and margin targets are challenging. But we have every reason to believe they are achievable. As ever, we will support growth with acquisitions when the right opportunities come along.

Slide - Conclusion

By way of conclusion, let me reiterate two points:

- We are facing significant challenges in many of our markets, but their nature and magnitude are very much as we expected and planned for.
- Consequently, we are confident of making progress this year.

Looking ahead, I'd like to leave you with four points:

- We will continue to manage the business on the basis that market conditions will remain tough.
- The clear strategy we have put in place, the scale and capabilities we have built over the last several years, the actions we have taken in individual markets and the cost measures we started implementing in 2010 will stand us in good stead.
- We expect recovery in our markets in the medium term.
- And our commitment to a progressive dividend policy demonstrates that confidence.