Balfour Beatty Investor Seminar

30 November 2010

Script

This script was edited from its original on 17 December 2010 for certain US regulatory reasons.

The edited section is clearly marked in the document.

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Ian Tyler, Chief Executive

Overview of the Group

Good afternoon ladies and gentlemen, and welcome to our seminar.

Over the last few years Duncan and I have had the genuine privilege of an active, supportive and stimulating dialogue with our long term investors and with the analysts who cover our sector.

Some of you have followed us over the years and some we have engaged with recently. But I hope you agree that we would all benefit from pausing to take stock of where Balfour Beatty is today.

This is important as, over the last five years, we have pursued a strategy that has more than doubled revenue and increased pretax profit by almost three-fold. Even more importantly though, it has given us the range of capabilities which, as we will consider in a few minutes, gives us a fantastic platform to grow further.

Balfour Beatty is a ‘full service’ infrastructure services company and I will explain precisely what I mean by that in a few minutes. The objective of today is to explain how the capabilities and market positions embodied in this model gives us access to the global infrastructure markets and how this puts us in a great position to deliver value to shareholders in the short, medium and long term.

Agenda

Let me run through what we’re going to do today.

In a few minutes Peter Zinkin, our head of Strategy and M&A, will look at the growth in demand for infrastructure in our markets, the link between GDP growth and infrastructure investment, and the implications this all has for Balfour Beatty.

Andrew McNaughton, our Chief Operating Officer, is going to talk in a little more detail about our business model, how it compares with infrastructure service companies across the world, and most importantly, how it positions us to access and increasingly penetrate infrastructure markets globally.

I then want to change tack and spend a few minutes looking at some very important moves we’re making in the way we operate our infrastructure investment business and I’m going to ask Anthony Rabin to explain these changes, their background and the implications they have for this part of the business, and Group as a whole, going forward.

We’ll then take a much needed break to allow people to recover their energy - or seek psychiatric help. Finally, I’m going to ask Duncan Magrath to draw pull together the overall financial conclusions and consequences of all that we will have talked about.

I’ll make a few concluding remarks and then there will be a test, in the form of a Q&A session, just to make sure everyone has been concentrating and we’ll aim to wrap –up around 5pm.

In order to be as efficient as possible, I'd like to suggest that we save all questions until the Q&A session at the end and then we can pick up questions or comments on all the areas we've covered.

When we set out our strategy in 2005, we noted that the world of infrastructure traditionally broke down into single service businesses - design, programme management, project development, finance, construction, operations and maintenance. But we also noted that, not only are customers common across those businesses, but many of the core skills and processes are common too. Core skills such as asset knowledge, risk management, commercial management and supply chain integration - the ability to seamlessly integrate and manage the capabilities of others - are threads that run through all infrastructure service businesses.

So, based on these core skills, we have set out to establish a group delivering a full range of services to owners and operators. We operate in transport systems, power and water assets and complex buildings – that is, the assets and systems that all societies need in order to function and develop. And, geography apart, it's as simple as that.

Defining core skills

Let's look a little more closely at the skills which define Balfour Beatty.

The technical knowledge of the assets in which we are involved is an obvious prerequisite to what we do. However, it is easy to overlook just how important that knowledge is and that the breadth and depth of knowledge in the Group we have created exists in only a handful of organisations across the world.

Our customers have many common characteristics. Not only are the assets that they own and operate complex but they themselves are complex, and in most cases the environment within which they operate is both complex and challenging. Our understanding of, and intimate relation with, these customers is at the core of our business.

Perhaps most importantly, in all parts of our business, the most important thing we do is to integrate the capabilities and activities of a diverse range of market participants. Across most of our activities we need to remember that we physically deliver only a small proportion of the assets we create manage and operate. Our core skill is the ability to pull together the resources of our client and the wider supply chain to deliver or sustain a working asset and I believe that our customers regard us as world class in this regard.

…and, of course, in the world of infrastructure, geography is important. Much of what we do is delivered locally, to national and regional customers, by a local and regional supply chain. Our ability to act globally but deliver locally is an absolute necessity for our business.

In the end, we deliver to our customers reliability, quality, knowledge and safety.

Defining core skills (2)

The natural markets for these attributes are in mature economies where infrastructure owners need to develop their assets in increasingly sophisticated ways. However, as we will see in a minute, the fastest growing part of the global infrastructure market is in emerging economies.

Interestingly, as Andrew will explain, although we have yet to exploit the potential opportunities within our Group, we have an almost unique set of abilities which will enable us to access these markets, as they develop, in ways which will drive value without exposure to disproportionate risk.

Addressing the infrastructure market

For practical reasons, we have organised ourselves along lines of capability, namely professional services, construction services, support services and infrastructure investments. But we do this in a way that generates a whole greater than the sum of these parts.

Let me take a few minutes to consider how we can drive value from this set of capabilities.

Value creation

The first point naturally follows from everything I've been talking about so far.

We have a great deal of experience and a proven track record of generating consistent growth from infrastructure across the value chain. I think it's fair to say that we've proven ourselves to be good at acquiring and running businesses across this sector.

Let's take our building construction business in the UK. We have grown this business organically between 2005 and 2009 by 150% and increased margins from 2.3% to over 3%. Over this period, the market grew by less than 25%.

Our facilities management business has grown from a £250m business to nearly £600m in five years.

Likewise, in our UK PFI business, we have created, entirely organically, the largest primary infrastructure investor in the UK and, as Anthony will illustrate in a few minutes, we are creating material value for both customers and shareholders.

We have also demonstrated an ability to generate growth through acquisition. Take Mansell for example. When we acquired the business in 2003, it had revenue of £450m. By 2009 we had nearly doubled this, and increased margins to 3%. And in the US, we have doubled the profitability of the old Centex Construction business in the past three years.

… and there are of course many other examples.

Prior to the acquisition of Parsons Brinckerhoff in 2009, we had already grown a 600-man professional services business from scratch achieving above industry average margins. Having completed our first year of integration with Parson Brinckerhoff, we remain very confident that we will deliver substantially higher earnings from this business as well as enhancing the overall value we deliver to our customers.

The core skills which have enabled to us to do this successfully are embedded deeply with our Group and I believe we will continue to drive value from existing businesses and those we may acquire in the future by leveraging these core skills.

The second reason why we deliver more value from the totality of the business is the ability to leverage technical expertise. As I have said before, many of our activities are technically complicated and many of our clients have complex needs. The depth of knowledge we have in one part of the value chain can be used to our, and our customer's, advantage in another part. A good example of this is at Heathrow for BAA. As well as carrying all our experience from T5, the team that's delivering Terminal 2B now has a number of people bringing specific technical expertise from PB's US airports team. This was an important factor in the recent £500m award of the next phase of the project which we announced recently. Likewise, PB are an important component of our construction business's activities and ambitions in the new nuclear market.

The third element of value creation is the ability to provide a genuinely integrated capability to our customers. To many, we offer world-class capability in one or more areas ... separately. But to some customers, we offer a combination of these capabilities in a seamlessly integrated manner and reduce interface and delivery risk on large complex activities. When we do this, we maximise the use of our knowledge, eliminate costly interfaces and reduce the risks of delivery.

Clearly the best example of this is the PFI market where our ability to combine world class development, financing, construction and O&M skills has been a major component in our leadership in this market. But, of course, there are many other examples such as alliance activities for National Grid in both the UK and the US which combines our professional and support services capabilities. For British Energy we have combined our construction and support services capabilities and, in the US, as I've mentioned on several occasions before, the combination of our Rail Systems and Systems Integration capability have been key to the Eagle P3 project. All of our experience suggests that, when we work in this way, we deliver higher value for our customers and increased returns for us.

Over time, the greater range of capabilities which the PB acquisition brings will present many more opportunities to integrate our capabilities, potentially making us a more broadly based EPC and EPCM player.

We believe the Group we have created is a fantastic platform to grow and deliver value for shareholders.

We're going to spend a little time now talking about why we believe infrastructure markets are fertile ground for growth in different geographies around the world. And we'll then look at the particular platform we have created and why it is ideally suited to benefit from that growth.

So, over to Peter....

Balfour Beatty Investor Seminar

30 November 2010

Peter Zinkin, Planning and Development Director

Infrastructure markets

Good Afternoon

As Ian said Balfour Beatty is an Infrastructure Company and as such we need to understand the infrastructure markets in which we operate. With our extensive order backlog and pipeline we have the great advantage of being able to see how our markets are developing but with the time to do something about it when they change. This may be through discussions with our customers on the impact of their plans on the supply chain or making necessary internal changes to our business as one of our markets grows but another fades. But all of this requires a deep understanding of our markets.

As part of that process of understanding for the last few years we have been working with Oxera one of the leading economic consultancy's in this area to improve our detailed knowledge's of the way infrastructure markets work both in the UK and globally and we have from Oxera with us today one of their Managing Directors, Dr Luis Correia and Thomas Hoe one of their Consultants. We have worked with Oxera to produce much of the analysis and data we are presenting today and I would like to share some of that understanding with you now.

Outline of presentation

I have to start by explaining what we mean by infrastructure to ensure we are all talking the same language. Then I am going to talk about the prospects for the infrastructure market on a global scale over the next few years. We are then going to look at the way infrastructure expenditure and GDP interact and the relative stability of the infrastructure market compared to a number of other similar markets. I want to discuss the similarities and differences between infrastructure expenditure in developed and emerging economies and the lessons that that has for the development of our business. Finally it seemed appropriate to share with you the work we have done on the impact of the comprehensive spending review on our UK markets and how that will impact us over the next few years and finally what all of this means for Balfour Beatty.

What is infrastructure and which markets are we going to discuss today?

When we talk about infrastructure we mean both civil and social infrastructure, I think as Ian has indicated that the definition of civil infrastructure, transportation including roads rail and airports, power, water and communications is probably very familiar to you but social infrastructure which includes the complex buildings Ian covered health, education & social and military housing may not instinctively come within everyone's understanding of what infrastructure includes. It is not possible to discuss every market and so in the presentation for developed economies we will be looking at the UK, USA and Canada and for emerging economies India and China.

We have three propositions which I would like you to bear in mind as I go through the presentation which reflect what our view of these markets means for Balfour Beatty. I will come back to these propositions again at the end as I hope the substantiated takeaway. We believe that in the infrastructure markets in which Balfour Beatty operates the overall picture for the next five years does not look that different from the markets we have seen in the last five years.

Balfour Beatty – proposition 1

So our first proposition is that infrastructure will remain a strong and stable growing global market.

The global infrastructure market is expected to be £20+ trillion over 2010-20

We have looked at the various surveys that exist on global infrastructure expenditure and the best view would seem to be that across the globe more than 20 trillion pounds will be spent on infrastructure over the next decade. On the slide the light circles show the cumulative expenditure over the decade in trillions of pounds and the darker circles the expected growth rates although I think you should take the growth rates as illustrative rather than definitive. Much of this will be spent in India, China and the Asian region which as you can see also has a high forecast growth rate. Having said that substantive expenditure is also expected in both the UK and the US markets with continued growth in both markets.

The Asian market needs to become increasingly significant to us which is why the acquisition of PB and its substantial Asian and Australian presence with around 5,000 employees in the territory being nearly 30% of its total employees is so important to us.

Infrastructure and GDP - the virtuous circle

We need to explain what the drivers are for this growth. I mentioned the interaction between infrastructure and GDP, a relationship which we refer to as the virtuous circle, virtuous at least in a world of growth. The relationship is particularly interesting because it is both intimate and works in both directions. What do I mean by that? There is clear evidence that GDP growth is highly correlated with infrastructure growth. In a growing global economy that is highly beneficial. Correlation does not prove causality but the logic chain is that as GDP grows; in the larger economy that results there are more resources available for infrastructure investment.

But actually it works the other way round as well, investment in infrastructure is one of the best ways of stimulating growth in GDP, this is a theme which the UK, US and a number of other governments have been speaking about recently and is evidenced by the rhetoric around the stimulus packages and recent announcements on major transportation projects such as Thames Link and Cross Rail in the UK. All of this we believe is supportive of the fact that governments recognise the importance of the relationship between infrastructure and GDP growth. What makes this relationship work?

On the left of the slide you see the supply side effects. Lack or shortage of infrastructure, just think of transportation in London, causes bottlenecks or traffic jams and reduces productivity. Investment in infrastructure conversely will eliminate the bottlenecks ultimately raising productivity and new infrastructure promotes the development of new markets. A good example of new markets you will all know about is the development associated with new railway stations such as Ashford. On the demand side, on the right of the slide, infrastructure investment uses large amounts of local labour, has long mainly local supply chains, high local consumption of other goods and services and intuitively the labour force spend their money locally which means we can show that the economic stimulus effect of infrastructure investment is high relative to other forms of expenditure. Overall: infrastructure investment is good for GDP growth and GDP growth is good for infrastructure investment.

Infrastructure and GDP are highly correlated

To illustrate this I would like to show you a couple of charts, the first which plots on the vertical axis the rate of investment infrastructure plotted against on the horizontal axis average real growth rates of GDP for a wide range of economies over a nearly 50 year period. What you can see from this graph is the correlation between the rate of growth in the economy and the rate of infrastructure investment for these economies. The emerging markets of China and India stand out on the right of the chart with amongst others the lower growth developed economies on the left of the chart. For those techies amongst you we have used gross fixed capital formation as the proxy for investment in infrastructure as in emerging economies reliable and consistent infrastructure data does not exist.

On the supply side our analysis shows that the productivity gain from civil infrastructure investment is many times greater than that from any other construction activity. It has been estimated by a leading US academic that the productivity gain for civil infrastructure in the US compared to the other construction activities is in fact six times as high.

Demand side: infrastructure investment has a higher economic multiplier effect than non-infrastructure expenditure and so has greater economic leverage

On the demand side we have compared the multiplier effect of infrastructure investment against non infrastructure expenditure such as consultancy or public administration. The multiplier quantifies the overall economic impact of £1 of infrastructure expenditure compared to £1 of expenditure on the other activities. As you can see in the UK, on the left of the slide the infrastructure multipliers is significantly higher than the non infrastructure multipliers shown. I did not dare show the effect of tax cuts as unfortunately these have an even lower multiplier than any of the alternatives shown on the slide. You can see on the right side of the slide that the UK data is replicated almost exactly by similar studies from the USA.

The takeaway from all this is that investment in infrastructure is a necessary precondition over the medium term for a growing world economy. From a policy perspective we believe that governments increasingly recognise that they get a greater stimulus to economic growth by investing in infrastructure than almost any other expenditure category that they either undertake or can influence by regulation.

Infrastructure demand is very stable over prolonged periods of time... in the USA

You may remember that I mentioned infrastructure markets are more stable than other related markets, well I would like to try and show you what this means, the slide shows the proportion of GDP represented by the US housing and US infrastructure markets for new work since 1980. Let us compare the two. I think you can see that the infrastructure market, the lower blue line, has been very stable compared to the gyrations that we have seen in the housing market, the red line. I think the slide also shows the impact of the US housing market collapse very graphically as you can easily see the massive 60% reduction in housing activity from the peak in 2007.

Infrastructure demand is very stable over prolonged periods of time… also in the UK

We have looked at the same data in the UK and as you can see the story is repeated. You see that the blue infrastructure line is again very stable compared to either the housing or the private building lines, private building includes commercial and industrial building. The striking feature of this graph is way it illustrates the collapse of the new build commercial and industrial and housing markets in the early 90's and again since 2008 although as you can see, the current experience is not as bad as that experienced in the early 90's.

We conclude from all this that Infrastructure is the choice market to operate in. Although inevitably the market will have fluctuations, those fluctuations will most probably be mild compared to the gyrations of the other markets we could have chosen to major in.

Balfour Beatty – proposition 2

Our second proposition is that fast growing emerging markets will become increasingly important to us as their infrastructure growth rates will be even higher than their already high GDP growth rates.

As a group we operate in both developed and emerging markets and I would like to take a couple of minutes to explore the similarities and differences between the infrastructure markets in these two worlds.

What drives infra investment in developed and emerging economies

First the similarities, as I have said infrastructure investment is driven by growth but that itself is driven by changes in such factors as the volume of international trade and the changing demographics of individual countries. This applies to almost all countries. In the US for example one of the infrastructure drivers is the population movement from the northern states to the warmer southern states and the additional requirement for infrastructure that creates.

Now the differences. In the developed world much of the infrastructure networks were completed many years ago but sustainability and green agendas and the need to start renewing a cohort of infrastructure that was built 40 or more years ago are amongst the key drivers which we see over the next few years. In emerging markets by contrast the key trends are population growth, the rate of urbanisation and increasing GDP per capita which create demand for additional infrastructure. As a result in contrast to the relatively stable proportion of GDP in a typical developed economy which is invested in infrastructure you see, in the slide the story in India which shows, a steady rate of increase in the proportion of GDP which is being spent on infrastructure. What this means is that infrastructure expenditure is rising even faster in these markets than GDP and remember GDP itself is rising rapidly. This can be illustrated by comparing the rising power consumption per head of around 6% per annum in India with a growing population with in recent years the relatively flat or even declining power consumption per capita in a developed economy such as the UK (with a broadly static and ageing population) where sustainability and green issues are increasingly high on the agenda.

In developed economies start of renewal of 40+ year old infrastructure can be seen after 2000

As Infrastructure investment trends are very lengthy you have to look at them over decades rather than months to understand what is going on. Infrastructure projects after all can take a decade or more from the first idea to the completed project. The slide shows the evolution of infrastructure expenditure in the US Canada and the UK over the last 50 years again as a % of GDP. There was an infrastructure boom after the Second World War which ended in the late 60's. There was then a fall off but in those economies you can see that since the 1980's infrastructure expenditure has been a roughly constant proportion of GDP. We are now reaching the point where much of that infrastructure is reaching the end of its life and in all three of the economies the UK, US and Canada we are seeing some increase in infrastructure expenditure helped in part by some replacement activity kicking in.

In emerging economies investment in civil infrastructure is accelerating

The relative long term stability in the developed world contrasts with the picture in India and China where there are much more significant growth rates in infrastructure expenditure as the fundamental infrastructure is laid down.

Pattern of social and civil infra is different between developed and emerging economies

One important difference between the developing markets and the emerging markets is that in the emerging markets a higher proportion of the expenditure is on civil infrastructure whereas in the developed market where civil infrastructure networks are largely in place more money is available to spend on social infrastructure such as schools and hospitals which has a significantly higher share of the total spend.

So to recap the fundamental drivers in both developed and emerging economies require infrastructure investment for the foreseeable future all supportive of our first and second propositions.

Balfour Beatty – proposition 3

Now turning to the UK and the comprehensive spending review where the start of our third proposition is that the impact of the CSR on the overall infrastructure market which is not just about central government expenditure as it includes the power sector and the other regulated utilities will be relatively modest.

UK infrastructure outlook in the short term is mixed, with social expected to fall and civil to rise

If we look at infrastructure expenditure in more detail in the UK we see that over the last 10 years civil infrastructure the lower blue section of the slide has been broadly stable whereas since 1997 there has been a very substantial increase in expenditure in social infrastructure.

UK infrastructure trends (GDP%)

In more detail we see that the biggest component of the increase in social infrastructure is expenditure on education which most clearly of the sectors we have looked at is running at a level substantially in excess of any historical norm.

Social infrastructure investment in the UK had risen to unsustainable levels after 1997

The historic data shows a relatively stable split between civil and social infrastructure expenditure across the developed world, however, something very unusual occurred in the UK after 1997. If we look at the proportion of infrastructure expenditure which has been committed to social infrastructure we see that in the period since 1997 the UK shows a quite different picture to either the US or the Canadian market with an unusual spike in the proportion of social infrastructure expenditure. This was mainly due to expenditure on education.

Although social infrastructure spending will fall it is still expected to remain at substantially above historical levels

To understand what will happen next we have analysed as best we can the implications of the CSR and projected forward the proportion of GDP going into education and health.

As you can see although there is a substantial reduction in education expenditure it merely brings it back to what one might consider to be a more normal level. In health the forecast is for expenditure to be broadly held, so in combination there will be a reduction in social infrastructure expenditure but only bringing it back nearer to historic levels.

UK civil infrastructure is expected to be a strong market, particularly in power sector

In contrast if we look at civil infrastructure despite the reductions by central government we expect the programme of the regulated utilities to continue, a significant increase in power and waste expenditure as the power station replacement programme gets underway and investment is made in the offshore wind farms and other green initiatives. With recent announcements on transport expenditure we are reasonably confident that over the next 5 years investment in transportation infrastructure particularly in the larger projects will be higher than in the last five years. I am sure with a few bumps on the way, that we will have a stronger the civil infrastructure market over the next five years than we have seen over the last five years. Overall we see a slow down in the social infrastructure market but as I have just said growth in the civil infrastructure market.

So what does all this mean for Balfour Beatty?

Balfour Beatty – propositions

I bring you back to my three propositions, firstly infrastructure is a strong and stable long term market which we are confident will grow. Global economic growth requires global infrastructure investment. Secondly, prospects are particularly strong in the fast growing emerging markets which will become increasingly important to us. Finally that in the UK the impact of the CSR on the infrastructure market will be relatively modest. The slow down in social infrastructure expenditure will be off set by growth in the civil infrastructure market which has good prospects. We expect a stable market in water and transportation and good growth in waste and power. Over the longer term we will further benefit as replacement programmes kick in.

So when you consider everything we have said I hope that you can see why we believe that overall the global infrastructure markets we face in the next five years will continue to grow.

I am now handing over to Andrew who will talk about our business model, what our approach is to emerging markets and our strategic positioning amongst our peers.

Balfour Beatty Investor Seminar

30 November 2010

Andrew McNaughton, Chief Operating Officer

Business model and strategic position

Good afternoon everyone. Peter has set out the market context for us and the opportunity in terms of the scale, long term stability and growth that the global infrastructure market offers.

Balfour Beatty is an infrastructure company

In his opening remarks, Ian has described us as an infrastructure company and now broadly diversified across both market sectors and geographies. I would like to take the points made by both Ian and Peter and outline why the Balfour Beatty business model gives us a strong strategic position to benefit from the long term investment infrastructure needs across the world.

Four elements are at the heart of the Balfour Beatty offering – Technical Expertise

At the heart of our model are four core skills that are common across the breadth of our operations and that we can deploy to suit the varied demands of the infrastructure market and its customers.

The first of these is our technical expertise.

Balfour Beatty capabilities address all aspects of the infrastructure market……

This applies to our investments activities through the development and implementation of robust investment proposals. A clear example of this was our ability to develop and bring to financial close the finance proposal for the M25 [DBFO] in financial market conditions of unprecedented difficulty.

It equally applies in our professional services whether through our design capability in power plant, major civil engineering structures and complex buildings; or in strategic planning such as regional power transmission networks in sub-Saharan Africa; or providing advice to governments and the world bank on topics as diverse as waste management and carbon capture.

In our construction businesses we have demonstrated repeatedly our breadth of technical expertise in infrastructure delivery. The catalogue of successfully completed complex projects is exhaustive and demonstrates the capability both in civil and social infrastructure around the world.

This breadth of capability is also increasingly reflected in our support services activities through the ability to operate and maintain complex estates for organisations such as BT and Royal Mail Group and undertake organisational change programmes supporting customers to deliver their core business.

Four elements are at the heart of the Balfour Beatty offering – Local Knowledge

One of the features of infrastructure is that it is bought by local customers to service the needs of local communities. As a result, a fundamental need for a business to capitalise on the future demands of infrastructure is knowledge of local markets and their needs. With revenues now generated from more than 80 countries and 300 local offices around the world, Balfour Beatty has the business platform needed to capture local knowledge and solidify local relationships.

Four elements are at the heart of the Balfour Beatty offering – Complex customers

The needs of customers vary across the infrastructure market. It is clear that the world continues to develop a more mature approach to key issues, such as carbon reduction and global warming. However these are matched with the challenges of growing population, accelerating urbanisation and need for natural resources. In this context the needs of customers are undoubtedly becoming more complex. A core capability of our business is to understand the varied needs of customers, the complexity of the environment in which they operate and harness the potential of the group to deliver solutions.

Four elements are at the heart of the Balfour Beatty offering – Integrator

Often the key to delivery in a complex world is the ability to bring together all the elements and resources required to deliver the outcome sought by the customer – in other words to act as integrator. Many can deliver individual parts but few have the ability to combine all the elements of the supply chain and manage the critical interfaces that deliver a quality product, such as the Aquatics Centre for 2012 Olympics, which I am sure many of you are familiar with.

Balfour Beatty is one of the very few that can apply these skills on a global scale.

The combination differentiates Balfour Beatty - especially on large complex projects

We choose to operate where we have a detailed knowledge of the customers and the capability of the supply market to deliver their needs. We bring extensive project and programme management expertise to integrate the local delivery capability. We add to this the ability to bring resources and knowledge from across Balfour Beatty businesses to offer unique service solutions.

Two excellent examples of this are the M25 [DBFO] and Denver Rapid Transit, where you can see that we have harnessed the skills across our divisions to deliver and manage not just infrastructure assets but complex transport systems. Such systems are fundamental requirements of communities for economic growth and they will increasingly rely on a level of operational excellence that Balfour Beatty's business model is equipped to deliver.

BB Strategic Positioning

If these are the demands of an infrastructure market, then how are we as Balfour Beatty positioned strategically to respond?

Let us consider others that are competing in this global market.

Players are approaching the global infrastructure market from different starting points

You will see here that I have grouped players into the capability from which they have originated: professional services; construction services; and engineering & construction. Many of them are now organisations with a much broader range of services – however, interestingly some are not and I will come back to his point, specifically for the USA.

Balfour Beatty is in the top echelon of global infrastructure players

There are several key features that define players on the stage that is global infrastructure delivery. First is scale. All the businesses noted here would feature as high ranking in an order of merit – the one shown here is from the Engineering News Record. The ability to mobilise the extensive capabilities and resources to satisfy the demands of major infrastructure delivery programmes is essential for success. A critical factor is the ability to deploy skilled staff with a depth of knowledge and experience. An interesting aspect of the ranking list is that it features a number of large Engineering & Construction players, such as Fluor, Bechtel and Jacobs, which have developed skills such as integration in their core industrial business and have then sought to transfer those skills to the infrastructure market.

Global infrastructure players have a range of capabilities and international coverage

The second feature is that with some notable exceptions, many of the organisations offer a range of services across a range of sectors. It is notable that in addition to their extensive construction operations the major European players have a strong capability in infrastructure investment – but they have less capability in other areas, particularly in the professional services field. Geographically, again many of the organisations offer a broad base from which to deploy their capabilities.

It is important, as we move to understand the relevance of the Balfour Beatty divisions in markets of varying maturity, that we consider some of the characteristics of these markets in more detail.

Balfour Beatty is larger than its global PS peers and it has broader geographical coverage than most

You can see within the professional services grouping, that whilst it is not the largest professional services firm, Balfour Beatty has significantly greater scale and access to critical resources as well as a wider international presence; half of our activity is now on an international basis, i.e. outside our domestic UK market

Balfour Beatty has a greater focus on infrastructure than the leading global E&C players

Within the Engineering & Construction grouping, the adjacency of their core industrial strength to infrastructure markets allows helpful skills transfer and supports the drive for geographical reach. However, Balfour Beatty has a significantly stronger focus and knowledge base in the infrastructure sector than most other players.

USA construction players are focused on the USA and have narrower capabilities than Balfour Beatty

For the major construction grouping, the USA offers an interesting insight into the capability to respond to the evolving demands of the global infrastructure market. The difference in scale of Balfour Beatty as a group is clear. However, what is also notable is that in a domestic (USA) sense, the organisations are of reasonably similar scale. For all businesses other than Balfour Beatty, the ability to deliver outside of their home market of the USA/North America is minimal. When we also consider that these players have a limited range of capabilities other than in construction services, their ability to respond to infrastructure demands outside of their domestic market is limited.

European construction players have scale, geographical spread and PPP skills but in general lack a PS capability

Considering the European players, I noted earlier that whilst several organisations are larger than Balfour Beatty and all have a strong knowledge and capability in infrastructure investment, there is a lack of substantial professional services capability. The relevance of which I will come back to shortly.

Balfour Beatty has a distinct combination of attributes that differentiate it from its peers

From this analysis we can see that Balfour Beatty compares favourably with many international players. Scale is a common feature and many, with the notable exception of USA construction players, have an international footprint. But Balfour Beatty has a stronger focus on infrastructure than the E & C players and the ability to deploy a far broader range of professional services than its European peers. We also have the broader investment services capability than American peers. When taken in combination, this provides Balfour Beatty a distinct advantage in the global infrastructure market

The global infrastructure market is expected to be £20+ trillion over 2010-20

In order to assess fully the strategic potential of Balfour Beatty to continue to develop and grow in this substantial global market, we need to consider how each of our services relate to it. Here again it is necessary to regard the market in more detail. We can divide the global market in infrastructure terms into a combination of countries that form a Developed world and an Emerging world. Whilst this model is a major simplification it is true that countries with more developed economies and those with emerging economies have particular characteristics that require a differing range of skills and capabilities.

Developed economies

The developed world is characterised by mature assets and generally a sophisticated and well-regulated procurement environment. In the most mature cases, there is a detailed understanding of the whole life cost of assets and the need for programmes of maintenance and renewal. In such circumstances, asset owners who have a deep knowledge of their asset base can make informed judgements on outsourcing and on partnership with third party investors to deliver solutions.

In many cases the introduction of new infrastructure is required to replace life-expired assets or to extend capacity. Development constraints and an intricate web of stakeholders result in highly complex solutions. These are characterised by projects such as the extensions to the New York Subway, Blackfriars Station on the Thameslink Line and the prospective Thames Tideway project. This is a major tunnel scheme in London that is now required to replace the work of the Victorian sewer engineers and prevent the deterioration of the health of the Thames and hence, London.

In countries such as these, there is a need for skills to design, integrate, deliver and maintain major complex assets. In addition, there will be a need for innovative financing solutions to support the delivery of major capital programmes. This is evident in the UK national infrastructure plan, recently published by HM Treasury, in which private sources of funds are seen as key to the delivery of the £200 billion programme.

Emerging economies

In emerging economies, while the challenges faced are different, the skills of Balfour Beatty are equally relevant.

In many cases the drive is to provide new infrastructure to meet the needs of communities and allow them to capitalise on their economic potential. In contrast to the developed world, many are less structured or sophisticated with lower levels of project development capability or capacity. These countries also often have challenging or inappropriate business environments and attitudes to safety and the environment.

There is a deficit of strategic and detailed planning skills and, technical capability to deliver engineering solutions that suit the local environment. The ability to work with governments, developers and global finance organisations to develop and deliver long term programmes of infrastructure investment, bringing alongside this the knowledge and expertise in construction to enhance and in some cases develop the skills within the local supply chain.

Increasingly, there will be a need to bring the learning from project and programme financing models in order to sustain the necessary rate of growth of these economies. Therefore, the strength and global presence of our professional services capability, combined with the knowledge and expertise in infrastructure project promotion and investment, will enable us to respond to the intense demands of emerging markets.

These features underpin our established strategy of expanding our cabability in professional services. The acquisition of Parsons Brinkerhoff was a key step in this strategy and from a platform of 300 offices around the world we have the ability to penetrate further into infrastructure provision in emerging economies.

As our presence grows and markets mature, we will be well placed to deploy the broader skills of the Group, where we are confident that it will bring value in a proper regulated and ethical business environment.

Concluding remarks

Therefore in summary:-

- In response to the evolving global infrastructure market, we have a business model that delivers multiple capabilities, and combines technical expertise and the ability to integrate and manage interfaces in a complex environment to local communities.

- We have scale that positions us alongside a small set of global players that also have multi-skill capability and in many cases, our international footprint gives us an advantage to respond to the global market.

- We have the depth of capabilities across our divisions that offer a distinct advantage for delivering the needs of communities, both in developed and emerging markets.

This is the strength that is Balfour Beatty.

Balfour Beatty Investor Seminar

30 November 2010

Anthony Rabin, Deputy Chief Executive

Infrastructure investments

Good afternoon everybody.

THE INVESTMENTS AGENDA

My session is on our Investments business and I'll be covering four topics. Firstly an update on where the business is now at the end of 2010. I then want to spend a little time sharing with you how we plan to evolve the business going forward. I'm going to follow this with a few insights into the likely market place in 2011 and finish with a short introduction to our latest development, setting up an infrastructure funds management business. My session will be a little different from the others in that I am not going to be covering the entirety of the business but instead, selecting some new areas or aspects of the business to share with you. You will also be relieved to know that, unlike my last investor day presentation, there will be no tricky algebra!

SERVICES ACROSS THE ENTIRE INFRASTRUCTURE LIFECYCLE

Firstly, where are we now? As this slide shows, our key Group philosophy is to be able to provide our clients and customers with a complete range of services across the entire Infrastructure spectrum. And Infrastructure Investments is core to this and a key part of the offering, not only in well established markets like UK PFI but increasingly in other geographies, especially in countries like Australia and a range of emerging economies, where the acquisition of Parsons Brinckerhoff has significantly enhanced our presence.

Note too that the strength of our investments business is not confined to merely writing cheques. As well as acting as bid architect and integrator and client interface for sometimes a large number of companies, it is a business that has developed strong design and construction management skills, as well as the ability to operate and maintain infrastructure assets.

So that's where Investments fits with the total Group offering.

A SUBSTANTIAL PORTFOLIO

Let's look now at our current portfolio and some of the metrics over the last few years. Excluding Barking Power and our two airports, which had a combined net book value of £68m at the half year, our PPP portfolio has grown to be the largest UK PPP portfolio of any non financial institution. At 30 June this year, the Directors' Valuation showed a cash investment of £357m against a valuation of £624m, an uplift of 75%. In addition, I thought you would be interested to see this graph, which shows the volume of capital outside the US committed and invested (or to be invested) by

Balfour Beatty Capital between 1997 and 2011 and later, averaging about £30 m per annum.

In terms of IRRs, the current UK PFI portfolio is showing that, against Financial Close expectations of 15% pa, the portfolio is delivering a similar return after unrecovered bid costs and overhead. We actually do very well in terms of bid success rate and recovery of bid costs and we average better than 60% recovery, from an annual spend of around £30m.

A LEADING UK PPP MARKET POSITION

I also thought you might be interested in this slide, which shows that our UK PFI market presence over the last 15 years has been significant and, in the sectors in which we compete, namely hospitals, schools and roads, we have a material percentage of each of these. [PAUSE 3 seconds]

2010 AN EXCELLENT UK PERFORMANCE

Turning now to 2010, this has been an excellent year for our UK investment business. As you can see from this slide, we have won 10 PPP bids – 4 BSF, 3 Street Lighting, 1 Fire and Rescue, 1 Irish Road and 1 Offshore transmission asset. We also have 19 bids in progress, have closed three follow-on BSF projects from our existing concessions, and are working on the next phases. This will give us opportunities to invest a further £90m, as well as providing over £1 billion of construction and FM value. We also disposed of two PFI assets earlier this year at a discount rate of less than 7% pre-tax, more than 2% below the pre-tax weighted average discount rate in the Directors' Valuation.

INVESTMENT STRATEGY

I want to turn now to my second topic, our evolving approach to the investment business. This is now a mature business, and we have been building a portfolio very carefully for some 15 years. As I showed earlier, we have achieved significant value creation over the period and we have now reached the point in the business cycle where it is appropriate to realise some of the value inherent in these assets. We have, of course, realised value from one or two already, most notably, as I said earlier, at the beginning of the year, and we are now going to accelerate that process.

So why now and not before? The primary reason lies in the fact that, post financial close, we can add significant value to an asset after construction completion by demonstrating operational efficiencies and it is only by being able to demonstrate these efficiencies over time that one can maximise value.

So after taking this decision, the next question is how best to achieve it. In this respect we believe that there are two critical items to consider.

Firstly there is a difference between selling assets and selling a business. We believe that we have a business and team of people that is second to none and, in an environment, which I will talk more about shortly, where we see good prospects for the business going forward, it would be wrong to do anything other than retain our people to maximise those opportunities. Similarly we need to be mindful that we are seen by the UK public sector as a long term participant in the market place and therefore, in some cases, by selling down, rather than out, we would wish to reassure our public sector clients that we are here to stay.

Secondly, we could dispose of the portfolio of assets as a single trade sale or even an IPO. However, this would be unlikely to maximise value, where assets, or groups of assets are valued differently by different would be purchasers.

You will see us, therefore, disposing selectively and sequentially of some £200 - £300m of PFI and other infrastructure assets over the next 4 to 5 years. This is likely to produce, assuming current market conditions hold, gains in the order of around £20-25m per annum, representing around 3 pence per annum per share. The effect of this series of transactions is that they will generate cash for reinvestment opportunities, both within the investment business and elsewhere in the Group, as well as enhancing cash flow, so that an increment to annual dividends will be possible. Duncan will be saying more on this particular topic a bit later.

I should just mention, at this point, that the figure of £200m - £300m has been derived by taking into account a number of factors, but, in particular, has been sized so as to allow the UK investment business as a whole to be cash positive going forward, AFTER at least £50m a year investment into infrastructure assets.

INVESTMENTS – THE DEVELOPER MODEL

So what then is the model going forwards? Well, as I have just indicated, we see the business as continuing to be a substantial investor. It will, at the same time, increasingly act as a developer. This will mean in practice selling down some of its equity position after construction or, on occasions, purely taking fees to facilitate investment for others at Financial Close. Thus the developer model will enable us to increase profit before tax from this business both through a steady stream of profits on disposals, but also through developers' fees, in addition to continue to receive income from the investments themselves.

UK PFI – FUTURE MARKET STILL HAS POTENTIAL

So wearing our new hat, which markets are we looking at going forward? Turning first to the UK, it is clear that the result of the General Election earlier this year was potentially a turning point for PPP. In the first instance, the level of spend that went with the development of this form of procurement over the last 10 to 15 years was inevitably going to be unsustainable and, if we ever had any doubt about this, the Comprehensive Spending Review published in October laid to rest those doubts. It is also fair to say that there can be detected, in the current Government, a certain political ambivalence about PPP. Along with well publicised negative statements by certain ministers, the system of PPP credits, whereby central government hypothecated part of its funding for local government into dedicated funding for PPP schemes, has been abolished. However, this does not mean that PPP itself has been abolished, and relatively positive statements from a number of spending departments, and indeed more recently from Scotland's Finance Minister, on the continued need for private finance, reinforce this.

However, I do think that the nature of that investment may change. It is too early yet to be definitive, but it would seem that, increasingly, we will see projects put out to tender that require more complex solutions than previously necessary, probably involving greater income risk than we have seen to date. We do not, however, see this as negative and would believe that our extensive skills base will enable us to address this new potential market successfully.

So what does the next couple of years hold in store in the UK? The reality is that we live in uncertain times. However, if we aggregate the PPP projects in the sectors relevant to us that Departments have scheduled to be procured, that still appear to us to be unaffected by recent announcements, and that we intend to bid, there appear to be more than £5 bn of opportunities over the next two years, a more optimistic, albeit still uncertain, picture than might have been imagined a few months ago.

SIGNIFICANT CANADIAN PPP OPPORTUNITIES

I want to move now, to our investment business in North America and to focus on one area, Canadian PPP, where you will see us in increasing force. Canada has supported, both at a Federal and Provincial level, a number of PPP procurement programmes, based on the UK model, and in particular, Ontario has enthusiastically embraced this method of procurement which has been successful there over a number of years. You will have already seen by our recent purchase of Halsall, as part of the expansion of our consulting business, an increasing focus on Canada. We have also set up an Investments office in Toronto and have staffed this with a domestic team, supported by our US and UK businesses. Together with our US Construction business, this team has been short listed and is bidding for two courthouse projects in Ontario. Looking to the near term future, we see increasing opportunities here and we are currently considering bidding for a further 10 projects with an aggregate value of C$3bn over the next two years in Ontario, Alberta and British Columbia.

UK OFFSHORE WIND – A NEW OPPORTUNITY

Lastly, returning to the UK, we have a new privately financed industry opening up, namely offshore transmission. The UK, along with other Western European EU partners, has signed up to providing, by 2020, a significant proportion of our national energy needs from renewable sources and, as part of that drive, through the medium of OFGEM, the previous Government and now, it would appear, this Government is promoting power generation by licensing wind farms in the UK sector of the North Sea. The map you see on the screen shows the location of these in both the North and Irish seas. The industry is structured such that there are three distinctive activities involved. Firstly, the construction and operation of the wind farms themselves, secondly, the transmission of electricity from the platform to the onshore sub-station and thirdly, connection to an onshore network operated by the National Grid.

The activity so far has been relatively small scale but is likely to increase rapidly in pace, and this will require capital investment of some £100 billion over the next 10 years. Allied to this momentum, the Regulator has decided to split generation assets from transmission assets, by effectively nationalising and then re-privatising the transmission lines. This privatisation and licensing is scheduled to take place in three rounds and the first of these, in relation to transmission assets completed or in the course of construction, is going though the final stages of bidding. You will have seen that we have won a significant asset, Thanet, and in addition we are currently bidding another in this round, the winner of which will be determined in the course of

2011.This not only provides us with a good investment, but provides our Utilities business with a long term contract to repair and maintain the asset.

Round 2, also in respect of existing or semi completed assets, is due to commence shortly. It comprises 6 licences and over £2bn of capital expenditure and we believe that we stand a good chance of winning in this round also.

However, the real prize is Round 3, in respect of assets yet to be built. Not only will winning transmission licenses in this round provide both construction and maintenance, as well as investment opportunities, but Round 3 will offer us the potential for additional construction activity, both of the offshore platform and possibly the generators themselves. We are currently evaluating these opportunities carefully.

INFRASTRUCTURE FUNDS MANAGEMENT – THE PROPOSITION

This script was edited from its original on 17 December 2010 for certain US regulatory reasons.

THE INVESTMENT AGENDA – A SUMMARY

So, in summary. Firstly, we continue to see high quality opportunities for continuing investment in PFI and other greenfield opportunities. Secondly, we are changing the shape of the UK portfolio by selective disposals, thus releasing value and cash for the Group. This will be coupled, going forward, with a greater emphasis on the role of a developer. Lastly, complementary to all of this, we will be expanding the Group’s income generating potential by establishing an Infrastructure Funds management business.

It is now time for a break. Tea and coffee are served in the lunch area. Can we please reconvene back here at 4 o’clock when we will talk about the financial implications of the plans we have set out, and take your questions.

Balfour Beatty Investor Seminar

30 November 2010

Duncan Magrath, Finance Director

Financial implications

Welcome back.

I would like to give you a flavour for how the topics we have covered this afternoon impact on the growth and the shape of the Group.

I will do this with a very brief recap on our historic performance, to demonstrate our ability to grow faster than the markets we are in.

I will then give you a feel for some of the improvements in performance metrics we feel are achievable by the Group despite the good historical performance.

Finally I will cover the changing shape of the Group and dividend policy.

Historic double digit earnings and dividend growth

Before we look forward let me remind you of our track record.

We have delivered 23% growth per annum in PBT since 2005 and 14% growth per annum in dividends per share.

It is difficult to be precise as to the split of organic and acquisition growth, as when you have acquired a company and grown it – when does that growth become organic? However using some sensible splits, organic growth has accounted for just under half the 23% growth in profits since 2005. Over this period, this organic profit growth has consistently exceeded the overall market growth Peter showed you earlier.

We have also had a good return on the money that we have invested in acquisitions. On average over the same period, acquisitions have returned 14 to 15% on the net amount spent, excluding PB which really happened too late in the period to be meaningful.

Some of this acquisition growth was delivered with internal funds but some was funded through equity, hence the lower EPS growth of 13% per annum.

As I will discuss later, we believe we have the internal resources to execute targeted selective acquisitions and this will augment our continuing organic growth.

Strong balance sheet

It is also worth thinking about the structure of our balance sheet.

As you know balance sheets of construction companies are unusual due to the significant levels of negative working capital. Clearly we are more than just a construction company which introduces other elements into the balance sheet, such as the investments business. This potentially makes our balance sheet more difficult to understand.

To demonstrate how I think of the various different parts of the balance sheet I have shown the 2010 half year balance sheet in a different format to normal, grouped into five major categories.

The different categories are broadly shown in declining order of liquidity.

We had cash balances of £500 million in addition to which and not shown on the balance sheet are committed facilities of around £600m.

We had short term liabilities in the form of net negative working capital of just under £1 billion.

Infrastructure investments with a book value of £343m clearly significantly understate the realisable value of these investments and are reasonably liquid.

Our pension liabilities vary in duration, but essentially after the announcement we made last week, we can think of the bulk of these as having up to an 8 year maturity.

We have intangible assets representing the impact of the significant acquisitions we have made over the last few years.

I do see each of these categories as very interlinked and it is important we achieve the right balance between them. Any movement in one can have an impact on the other.

For instance, if our working capital became less negative over time, say as Professional Services become a greater proportion of the Group, I would be comfortable with running with a lower level of cash.

Another example would be our pension deficit, which as it reduces, from a balance sheet perspective, we could, if we wanted to, reduce the value of our investment portfolio.

Just on that issue we are often asked about whether we would put PFI assets into our pension fund. We remain of the view that balancing these items in our own balance sheet remains preferable to balancing them within the fund.

In summary, whilst the shape of the balance sheet may well change over time, as we have said many times before we believe running with a strong balance sheet is important for our relationship with our customers and sureties. Supportive evidence of that exists from the last couple of years where it has undoubtedly won us additional business against weaker competitors.

Infrastructure investments strategy impact

As Anthony has discussed earlier, we believe that now is the appropriate time to consider a regular stream of disposals from our Investments portfolio, which will generate gains on disposal.

Given that we see this as a regular income stream of circa £20 million per annum, we intend in the future from 1 January 2011 to continue to separately disclose the gains on disposals of infrastructure assets but will include them as part of our adjusted profit from operations and not within exceptional items. As such we will take into account this stream of profits when assessing our level of dividend.

Not only will the disposals support an increased dividend, but the cash generated will over time also be able to provide funds for the investment needs of the Infrastructure Investments business as attractive opportunities present themselves.

Continuing positive cash generation

It is important to recognise that the underlying business will continue to generate cash and now will be augmented by the regular investments disposals. Also over time as the construction business starts to grow again, it will throw off more cash than profit due to the effect of the negative working capital.

These inflows will be sufficient to fund a growing dividend, the recently agreed pension deficit payments and specifically targeted acquisitions as and when these opportunities arise.

So what potential scale could an acquisition programme be over the next 5 years?

Strong underlying cashflows allow scope for selective acquisitions

Again looking back over the period since 2005, we have had a strong track record of underlying cashflows, and believe we can look forward to good cash generation over the next five years,

Given the construction part of our group, working capital cashflow is a significant consideration in future projections. After the outflow in the first half of 2010, principally as a result of the reduction in construction revenues, we would expect to return to working capital cash inflows when the construction revenues start to grow again.

As announced last week, we will also see pension deficit payments increase, to £35m net of tax on the main fund, and we will start to see a rise in US cash tax payments as we utilise our remaining tax losses.

However given our confidence in the infrastructure markets we believe we will see profits rise and, hence, cash flow.

Taking all of this into account, our strong existing balance sheet and an allowance to continue to grow dividends we believe we could have £500m to £700m to fund selective acquisitions over the five year period.

We would of course only invest in acquisitions if they are sensibly priced and will drive the strategic development of the Group.

So where do we see the priorities for investment?

Acquisition programme

Our main focus over the next few years is to develop our Professional Services business. Given the consolidation that is happening in the market place, we will need to add capabilities and geographic coverage to our business. We made a small step recently along this path with the acquisition of Halsall, to expand into Canada. We are aiming to more than double the profits from our professional services business.

In Construction Services, our focus will principally be outside the UK, although there may occasionally be niche opportunities in the UK, such as the Rok transaction we completed recently. For the time being outside the UK our focus is likely to be on completing our desired footprints in the US, with a particular focus on Atlanta and the west coast, where we feel we are under represented in good long-term markets.

In Support Services we believe organic growth will be the key driver of the business. Investment into this business is more likely to be cash investment into contract start-ups, and creating the infrastructure to support a growing business, rather than acquisitions. There may however be some need to acquire additional skill-sets as the scope of outsourcing from public sector clients expands.

Finally, as mentioned earlier, we see that the Investment business could generate funds for investment through a more regular programme of disposals of mature assets.

Margin expectations

Turning to our operating margins.

Just to be sure of definitional issues to start, these margins are EBIT as a percentage of revenue, including JVs and associates.

As we have discussed before, we believe we have the potential to be able to increase margins in Professional Services from about 4.5% which was the margin PB was operating at when we acquired them to between 6% and 7%, which is the level at which their competitors operate. We believe there is scope to do this from improved staff utilisation rates, benefits from collaborating with the rest of the Group, and in the longer term, taking advantage of EPC [Engineering, Procurement and Construction] contracting.

Whilst all segments are affected by mix of business, it is probably most acute in Construction Services. Margins, for instance, in the US are significantly lower than in the UK, but the US building market contractual model presents much lower risk and more consistent returns.

As previously announced we are not only focused on cost efficiency in our individual operating companies but also looking to leverage procurement and transactional processing across the operations in the UK. In the short term this will mitigate market pressure. Taking into account the drag on margins as the US becomes a bigger proportion of our construction profits, we believe construction margins will remain stable around current levels.

In Support Services, margins are a function of the success of delivering continuous committed cost savings to the client offset by opportunities to increase scope of work in higher margin areas. As new contracts are won, the mobilisation costs at the start of these contracts can depress margins, but in the long term the benefits of scale should be seen through operational and back office support. Taking these factors into account, we do see the ability to improve margins somewhat in Support Services from where they are today.

At a Group level, and including the Infrastructure Investments business, for which margins are relatively meaningless, and corporate costs, we believe the Group margin of 2.7% in 2009 can increase over the next five years to between 3.5% and 4.0%.

Growth expectations

Earlier I indicated that since 2005 we have generated organic growth in excess of market growth. We see no reason why we should also not exceed the market growth for the next 5 years, as well.

While the market figures are very broad measures, our diversity and ability to change focus between sectors does mean that we believe we can capture the underlying growth in those markets, and exceed it.

In Professional Services our profits will grow organically through margin performance and a good spread and exposure globally to faster growing markets. Acquisitions will also play a key part.

Opportunities for revenue growth in Construction Services will be more limited, particularly with the significant exposure to the UK market, but cost efficiencies will generate benefit over the longer term. As mentioned before, there should be some acquisition opportunities as well.

Support Services will have the best opportunities for organic revenue growth and this with a slight improvement in margins will drive profits growth. There will be limited acquisition growth.

So applying our assumption of growth rates from organic and acquisition sources, what could the shape of the Group look like?

Increasing proportion of profit from Professional Services

Using the recent half year results I have shown how our current profitability is broken down by segment, adjusting for the unusually high £8m of incentive payments received in Professional Services in the first half.

Looking forwards , on a profit basis, the impact of differing organic growth rates, acquisition spend, and margin performance will, I believe, continue the trend of Construction Services becoming a smaller part of the overall Group despite it growing in absolute terms.

Clearly, if we did a sum of the parts type analysis it would show a different split.

The proportions would increase for Professional Services and to a lesser extent Support Services, both of which the market appears to value on a higher multiple than Construction Services.

The other point to note is that the Investments business should currently be valued as an asset based business, and despite more regular disposals, profit as a measure of its value is likely to continue to understate the value to the Group until the developer model is more mature.

Consistent growth in dividends

I mentioned earlier our track record of consistently increasing dividends since 2005. We have done this with a relatively conservative dividend cover of 3.0x.

Looking forwards, the underlying growth in the business, plus the gains on sale of investments will drive earnings and dividend growth. On top of this we do have the capacity to reduce somewhat the dividend cover, if appropriate.

Summary

I have laid out some financial implications of what you have heard today.

In the Investments business we have indicated that additional profits can be generated from a more regular disposal program, and how disposal gains can feed through into increased dividends.

In our other three segments we have indicated directionally the growth and margins we think are achievable and how that would affect the overall Group's margin and the shape of the group.

This allied to the opportunity with internal resources to invest in selective strategic acquisitions will generate a growing stream of dividends for shareholders over the next few years.

I will now hand over to Ian who will do a brief summary.

Balfour Beatty Investor Seminar

30 November 2010

Ian Tyler, Chief Executive

Conclusion

Thank you Duncan.

Fundamentals of our business

By way of conclusion, I'd like to pick up on a few of the themes we've been discussing today.

Firstly, we have built Balfour Beatty into a global infrastructure services business. We now have a set of capabilities which are more comprehensive than those of our international peers, and in turn this gives us access to a broader range of markets and customers.

Furthermore, our core skills such as our proven integration ability, will increasingly give us opportunities to leverage those capabilities. I am sure it didn't come as a surprise to you that with the establishment of Balfour Beatty Funds Management Services, we are looking to extract more value out of our infrastructure knowledge.

Infrastructure markets

Secondly, infrastructure markets. Fiscal constraints notwithstanding, developed economies have committed a reasonably consistent proportion of their GDP to maintaining and developing their infrastructure. We believe that this trend will continue, albeit with slightly different dynamics, such as a shift in the UK from social infrastructure to civil infrastructure.

Indeed, we believe we are likely to see an increase in the proportion of GDP committed to infrastructure over the next ten to fifteen years as the need to renew post war assets becomes critical. In his presentation, Peter has given you some new data on infrastructure markets.

And whilst our focus has been on developed economies in the past, we are mindful that the demand for infrastructure will grow fastest in emerging economies. The capabilities we have brought together within Balfour Beatty, particularly our professional services and project development skills, allow us to access these markets as they develop in ways which offer potential for long-term growth without taking disproportionate risk.

Potential value over the next five years

And thirdly, how is all this going to drive value?

Whilst there is no getting away from some of the short-term issues in the world today, having a strong position in the infrastructure market with its excellent long-term growth characteristics, feels like a pretty good place to be.

Add to this the capacity and the opportunities we have to grow the business through further targeted acquisitions, the prospect of further efficiencies and the changing mix of our activities enhancing our margins, and the value we can release from the mature PPP asset portfolio, then I would contend that Balfour Beatty is in a very good place today.

Returns to shareholders

We expect that our growth will support our progressive dividend policy over the next five years with prospects for incremental dividends from our 'developer model' approach to infrastructure investment and I hope that Anthony and Duncan have set that out clearly for you this afternoon..

Overall, then, I believe we are in an excellent position to drive shareholder value in the next few years and beyond.

Thank you for listening, we will now take your questions. We will also take questions from those who are watching the webcast today, so towards the end of the session, I will ask Basak to read them out.