Balfour Beatty

2021 Half Year Results Presentation

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Balfour Beatty

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Video Played

Introduction & Highlights

Leo Quinn, Group Chief Executive
Good morning, welcome to Balfour Beatty's Half Year Results for 2021. It's quite incredible watching the video and reminding ourselves of some of the extraordinary things that we do all around the world. And it's a very worthy reminder of just our capability and how far stretched it is.

I'm going to take you through the Half Year Results. Before I start, at the Full Year last time I gave a presentation and I was very, very buoyant about what I see in the future for infrastructure. As I stand here today that optimism and buoyancy remains as strong as it was six months ago, if not even more so in terms of the developments that are continuing all around the globe post the pandemic.

So I'd like to frame these results in two ways, one is looking at the medium and long term, but also talking about the short term decisions that we've made. The foundation for this business for the next five and more likely ten years is going to be infrastructure growth. And it is going to be funded through fiscal expansion in all of the geographies we play in, UK, USA and Hong Kong.

If that wasn't enough of a driver when you look at the actual quantum of money that is going to be pumped into the economy, if you look at the new decarbonisation, the new renewables, material recycling and the likes of that, all of that goes to the very heart of what Balfour Beatty's capability is. And this is another real growth engine for us.

You know what we do day to day is we electrify railways; we actually connect windfarms to the National Grid. All of these things go right to the essence of what Balfour Beatty stands for. We also on occasion plant trees as well. But the real difference we can make is actually in what we deliver as a company.

Further, we see more growth within the portfolio, particularly in the US around the stimulus which is now coming into our Investments business. And what we're seeing is strong growth and a real emphasis on bringing the private sector into infrastructure expansion using PPP and the likes and I'll talk about that more later.

In the short term and medium term, we've made a number of portfolio choices and I think these are really important, because what these will allow is reliable, short term earnings, and in the medium term, real confidence in terms of what we'll generate in cash and returns to shareholders. And as I have often said, cash is the one thing you can count on in this business, it doesn't lie.

And again, if you look at our performance over the last five years, whether you're looking at the peaks, or you're looking at the troughs, you know every year we've improved year in year out. And again, the first half of this year our average has gone up nearly £100m over the prior year average and our peaks are higher and our troughs are higher. That's on top of our £100m of share buyback in the first half of the year. So it shows that the cash engine is still working and delivering for us.

This is all underpinned by what effectively are our Build to Last operational capabilities. And again, you know, I want to use the same information that we've used at previous presentations and comparing with 2019, which is the last real full year that we can actually look at. But in 2019 versus now our cash is up £611m versus £290m.

Our earnings are flat, but we shouldn't be surprised about that, in terms of we are coming out of a pandemic period and turning in £60m profit as a portfolio is actually a good outcome and we shouldn't be embarrassed by that at all.

Looking at our operating expenses you can see that they are now down at £105m, compared to £134m in 2019. They are actually down over the pandemic period as well, which has been a real focus and a hold in terms of operating costs. And then in the area of voluntary attrition, post the exit from our Gas and Water business we're at 10%.

I think you have read everywhere in the industry materials are a challenge and the likes of that, but also retaining people and actually recruiting is very, very difficult. You know with Balfour Beatty for example, in the UK being the largest contractor and having some of the best trained people in the industry, we are a very attractive proposition.

So our job just means that we need to double our efforts in retaining our best and brightest talent and also recruiting those for the future. And we have been doing this for the last five years in terms of investing in apprentices and graduates and building the next generation of leaders.

So on that note I'll hand over to Phil and then we'll go through the financial numbers and then I'll bring it back down to earth. Phil, over to you.

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Financial Review

Phil Harrison, Chief Financial Officer
Thanks Leo, and good morning everyone. As you can see from the headline slide Balfour Beatty continues to progressively recovery from the pandemic as we reported a significant recovery in profitability in the period.

For the first half of the year underlying profit from operations was £60m, broadly in line with the first half of 2019.

Both average net cash and period end net cash increased in the half as positive operating cash flows and working capital inflows more than offset the share buyback programme.

Average net cash at £611m and period end net cash at £625m both demonstrate the strength of Balfour Beatty's focus on cash management providing balance sheet strength to make the right decisions for the Group.

At the half year Balfour Beatty's order book at £16.1bn and the Directors valuation at £1.1bn were broadly flat with the 2020 year end.

The Board declared and interim dividend of 3p as we deliver on our multiyear programme of shareholder returns.

Moving to underlying profit from operations. In 2020 the pandemic had a material impact on Construction Services, whilst Support Services was relatively unaffected. This trend has continued into 2021, with outperformance at Support Services offsetting underperformance in Construction Services.

The significant outperformance in the first half of the year at Support Services is a result of improved performance across the portfolio, coupled with end of contract gains and the Group's strategic exit from the Gas and Water sector.

Whilst profitability at US Construction and Gammon returned to pre-pandemic levels, UK Construction was negatively impacted by a small number of private sector property projects in Central London.

Overall profit from the earnings based businesses in the first half of the year was £60m, broadly in line with 2019, which underpins the Board's confidence for the full year that PFO from the earnings based businesses will be line with 2019.

Turning to Construction Services in a bit more detail, both US Construction and Gammon recorded profit from operations at or above pre-pandemic levels. In the US, the current phase of the Microsoft Redmond Campus in Washington State and the I635 highway project in Texas are examples of the underlying operations performing well.

With tendering activity returning to pre-pandemic levels, the focus is on continuing to win quality work and the Group recently won another significant school project in Southern California.

At Gammon, Balfour Beatty's 50/50 joint venture with Jardine Matheson project execution and work winning continue to be positive. Gammon recently completed the M+ Museum project in Hong Kong and the order book continues to increase in a positive market.

Key UK infrastructure projects such as HS2, Hinkley and Highways continue to perform well. In line with our focus on key infrastructure projects, over 90% of UK Construction revenue was from the public sector and regulated industry clients for the first half of the year.

However, UK Construction recorded a £23m loss in the period, performance issues at private sector property projects in Central London have been exacerbated by COVID-19 disruptions, leading to a lengthening of project schedules, triggering write downs on a small number of contracts.

Balfour Beatty continues to be focused on public sector infrastructure and we will no longer bid for fixed price residential property projects in Central London.

Now, turning to Support Services, following the strategic repositioning of Support Services, Power, Road and Rail Maintenance, it is now characterised by profitable recurring revenues, underpinned by long term contracts.

The Power and Rail Maintenance businesses continue to perform strongly and together have just completed testing of the Eurotunnel ElecLink project, despite delays caused by regulatory approvals. The project recognised a significant completion bonus and represents an outstanding example of Balfour Beatty's successful delivery of complex infrastructure for its clients.

The ElecLink project contributed to the outperformance in the period, along with the Group's strategic exit from the Gas and Water sector.

Given Support Services robust order book and positive market outlook, the Group is raising its margin target range from 3 to 5% to 6 to 8%.

Turning to Infrastructure Investments, pre-disposal operating profit in the period increased to £8m, broadly consistent with the pre-pandemic level. Last year as a result of market uncertainty and the strong liquidity position of the Group, Balfour Beatty did not dispose of any investment assets. This year in June the Group recommenced asset disposals with the sale of its stake in the Children and Women's hospitals in Vancouver Canada for £20m.

Subsequent to the half year, Balfour Beatty sold a bundle of UK assets for £48m. Demand for infrastructure assets from the secondary market is expected to exceed supply and Balfour Beatty will continue to maximise shareholder value through selective disposal of assets from its portfolio.

Now an update on the DoJ investigation which remains ongoing. Balfour Beatty's own investigation is substantially complete, and we have shared our findings with the DoJ. The Group's external Resolution Council is currently engaged with the DoJ, with the intention of seeking resolution. Because the investigation is still ongoing from the DoJ, the Group is not able to provide any further indication of timing or any quantum of fine, penalty, or damages that may arise.

If we now turn to the Directors' valuation, the first half of 2021 was relatively stable for the business. The Group has invested £8m in new and existing projects, two new assets were added, a multifamily housing project in Houston and a student accommodation project at Vanderbilt University.

Balfour Beatty was also appointed preferred bidder at the University of Massachusetts and the Royal Holloway student accommodation project in the UK.

Balfour Beatty's competitive expertise to finance, develop, build and operate infrastructure puts the Group in a strong position to capitalise on new investment opportunities. Notably in the US P3 projects.

Cash yield from distributions amounted to £32m and sale proceeds were £20m. The continuing yield during COVID-19 demonstrated the essential nature of the Infrastructure Investment portfolio.

Unwind of discount at £41m is a function of moving the valuation date forward by six months. And operational performance movements resulted in a £4m decrease.

Now, if we move to cash flow, another period of positive cash flow in which we generated an inflow of £44m, increasing the Group's net cash position to £625m. The strong performance was driven by operating cash flows which were in line with underlying profit from operations and working capital inflows.

The most significant movement in the period was working capital inflows with the following three key factors, continued mobilisation and milestone payments from highways projects in US Construction, collections from the Gas and Water business following the exit from this sector, and the introduction of the UK VAT domestic reverse charge for the Construction sector which benefitted the Group by about £60m at period end.

Looking ahead, some of this working capital benefit will unwind, the Group expects negative working capital as a percentage of revenue to be between 11 to 13% in the medium term. It is over 14% at half year, with the range dependant on contract mix and the timing of project starts and completions.

Turning to our multiyear capital allocation framework, which we launched earlier this year. As a recap the framework comprises of the following five points, continued investment in organic growth opportunities in our Infrastructure Investments business, the active realisation of investment assets with disposals timed to optimise value for shareholders. Then maintenance of a strong, but efficient, balance sheet. In terms of capital returns we are committing to pay a sustainable ordinary dividend and additional cash returns via share buybacks or other mechanisms depending on market conditions, broadly based on surplus cash from disposals from the Investment portfolio as well as surplus levels of earnings not required to meet our business commitments.

Turning to how the capital allocation framework translates into shareholder returns, this slide summarises our current position. In 2021 PFO from the earnings based businesses is expected to be in line with 2019. Looking ahead the Group is raising its margin target range for Support Services from 3 to 5% to 6 to 8%, which represents an increase for the Group for 2022.

In March the Board reintroduced the dividend at a targeted pay-out ratio of 40% of underlying profit after tax. The Board has declared a 3 pence interim dividend for 2021, 43% higher than the corresponding pre-pandemic dividend for 2019.

Finally, Balfour Beatty's £150m share buyback programme for 2021 is progressing well, with around £100m completed in the first half of the year. The Group has re-commenced asset disposals with around £70m received year to date. Our progressive recovery and earnings and a recommencement of our asset disposals reinforces the Group's confidence in its capacity to deliver attractive, multiyear shareholder returns.

Thank you, I'll now hand you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive
Thank you, Phil, appreciate it. Just a quick reminder for everybody we are quite a diversified Group. Not only are we based in three geographies, the UK, USA and Hong Kong, we are also diversified across our portfolio in terms of £1bn Investment business, plus our Construction business. And Construction is further diversified in terms of projects and delivering infrastructure and services and recurring revenue in that area.

In terms of our portfolio and balancing the risk in the portfolio, we've progressively moved to be more and more driven by and dominated by public and regulated markets. And you can see this is as the black on these particular graphs. So you can see there is a strong bias to actually working with governments where it is a more managed risk profile than any other form of development that we participate in.

Looking at the background for a growing infrastructure market. If you look across the geographies of the US, UK and Hong Kong, everybody is actually driving very, very strong stimulus packages. And last time we showed you these graphs in terms of where we see the trend. You know subsequent to that there has been a lot more emphasis in terms of how do you recover post the pandemic and really how do you drive fiscal expansion. Infrastructure is a very savvy way of doing that, creating jobs and prosperity and sharing the wealth.

So in effect what you're seeing is not only infrastructure mentioned in every region, but you're also now seeing decarbonisation, renewables, the idea of bringing the private investor into play, both in the UK and the US. So net, net, net infrastructure is big, and it's being driven, but it is being underpinned by what effectively is a green decarbonisation agenda, which really goes to the heart of what we actually do as a company. So I'm very, very buoyed by the future that we see here.

In terms of our decarbonisation and renewables agenda, or credentials, we launched our strategy last year. And again we're focused on beyond zero carbon, zero waste and actually giving back in terms of positively impacting our communities. Internally within the company we have been driving this for over five years and we have actually halved the amount of carbon that we generate.

We have signed up for such things as the UN's Race To Zero campaign. And again what this is really about is it is a commitment and it's something that is really important, not only to our shareholders, but also to our employees. We have to be seen to be a good citizen. It's almost a licence to operate.

And interestingly enough, if you look here, we have recently done a crowd sourcing of some of the best sustainability ideas across the Group and we came up with 750 internal innovations around things that we could do to give something back, but also to better enhance our business going forwards with these credentials. And the level of engagement here is really phenomenal in terms of the interest that it takes on these days.

And also some of our actions that we do day to day, apart from the recycling of material and actually having zero waste, we have refitted our entire fleet on HS2 with new technology that actually helps to reduce the emissions and makes it acceptable in terms of the scrappers and the dump trucks and meeting the environmental standards. Day to day we're connecting up such things as windfarms to the Grid and all of those areas.

So sustainability is really at the heart of what Balfour Beatty does, we don’t' have to do anything extra like planting trees, which of course we are doing. But the fact is this is the heart of our business.

In terms of Support Services, this is actually - I'm going to spend a few minutes on this slide because this is quite an interesting transformation story.

If I look at Power, some three years ago, Power is actually losing money despite being a business which actually has extraordinarily high barriers to entry. What we have done is we have actually rationalised what we offer in this area in terms of back to our core knitting. We actually rationalised our customer base, there are certain customers that we don't want to do business with, and we won't.

In that respect, we have also looked at all of the terms and conditions and all the contracts which have come up for re-bidding we have challenged the terms and conditions and said these are risks that we are prepared to take, and these are risks that we aren't. So as this business goes forward and as it's been operating for the last two to three years, we have seen an increasing trend in terms of profitability and cash flow in the business.

The business has a future which actually I think is quite outstanding. If you think about back in 2014, we concluded a project called Beauly Denny, it was about £400m to £500m where we took - in Northern Scotland from the windfarm across the Highlands to National Grid. It was a very difficult and a very challenging project, not that anybody I could see that would want to take that on.

In the next five years what you are going to see down the East Coast of the UK, all the way from Scotland down to East Anglia, is a lot of windfarms being put up. And the size of that investment is going to be in the order of four to five times the size of Beauly

Denny just for this business here. So the capability we have within Power is really truly a foundation for a very long and successful growth future.

If we look at our Rail business, another very interesting story, back in 2017, there or thereabouts, we exited the Service market because we were actually losing money in Services at that time. We put all of our effort into projects and with electrification and the likes of that served us very, very well. But in light of the fact that those projects were coming to an end we reflipped the portfolio and went back into Services on a more profitable basis with better terms and conditions. And so now Rail is actually growing where most of the competition is actually declining and we're making good returns from this business as well.

We have also combined the capability of Rail and Power in the ElecLink project. And that is a project where if there were seven wonders of the world in terms of engineering this is the eighth. And that is where we've pulled a 58 kilometre cable through the Channel Tunnel in order to connect the French National Grid with the UK National Grid. And an amazing feat of engineering, all back to base design principles within the company. And that is the extent of the capability that we have.

In terms of our Road Maintenance business, we have two big areas here, we have our Living Places business which is a very successful maintenance business to local authorities. Obviously, it has benefited from the investment in potholes. But we run a very good business. We weren't attracted by the low bidding of three or four years ago and we stayed out of the market. The market now has normalised, and we have seen numerous local authorities, at least half a dozen coming back to market as their five and ten year frameworks start to renew. And we will be looking to bid that.

We also, within this area, have our M25 CPS contract and we have been making marked productivity gains in that business in terms of digital technology and the likes as to how we run a more efficient operation.

So net, net, net in Services we're firing on all three cylinders and we're very, very confident about the future. And that has given rise to what we see as enhanced profitability going forwards.

In terms of Gas and Water, specifically if I look at the GDSP contract, which is some eight years in the framework, that has been running for the last three years at a loss. And when I spoke to the CEO of Cadent, we have been sending Cadent £1m cheque every month for the last three years while we concluded on this contract.

It had onerous terms and conditions, it was signed I think in 2013/'14, and we deemed it to be a growth engine. But it was fundamentally a no profit zone. There was no money really being made in this contract over the eight year period. And for a Tier 1 supplier this is not a place we should play. So from my point of view we have decided that we're out of this business because it is fundamentally a no profit zone.

If I move on to UK Construction and I look at Central London, this is another area which I reclassify as a no profit zone for the Tier 1s. And although Phil has talked about the write down on three or four London projects, if you look at the industry in London and you look at the results of the likes of Multiplex or Lendlease, they have experienced the same challenges. This is an extraordinarily difficult market. And if we were to have our time again, strategically we wouldn't be there. But I suppose it's a little bit like our children, we can't sort of re-choose them, we're with it and we have to see it all the way through.

What has actually happened here is that these projects have suffered from an extended schedule, primarily around the chaos that was created during COVID. That extended schedule causes extended overhead and then you end up with a dispute in terms of liquidated damages. The commercial situation gets very, very challenging and that then feeds back into the actual developers themselves and they have to go back to the banks for refunding. And that causes stress at the cash flow and the payment end. And of course our supply chain gets under pressure because then everything becomes difficult and disputed in terms of costs, cost overrun and overhead.

At the end of the day if we weren't in a COVID world these projects would have been finished at the end of this year. As it is, it looks as if two of them will extend to the end of next year, which is a considerable overhead and a considerable cost. And of course we are still disputing the commercials, which we're looking to enforce our full entitlement.

However, if I set this off in terms of the equity that has been displaced here against where we could invest and make great returns is our Major Projects business, our Highways business and our Regional business post London are doing exceedingly well.

If I take Major Projects first and foremost, HS2. We have agreed a programme invested with the client; we have agreed a design joint venture programme where we can deliver the right designs at the right time in order to make sure we stay to schedule. But more importantly we have agreed and signed off a fully cost loaded programme for the project. And I believe we are sort of further ahead in this endeavour than anybody else on the project.

So a really, really strong performance and we're starting to mobilise. To date we've moved half a million cubic metres of earth and by the end of October we will have moved 2 million cubic metres. So real performance.

In terms of Hinkley Power Station we've completed the inlet tunnel and the outlet tunnel, we still have one more tunnel to do which is another inlet tunnel. But I want to point something out here, because I've not seen this in the industry as people have reported out.

The impact of COVID, post COVID, long COVID however you want to talk about it, it is still out there, and it is still relevant. And we had a great example on Hinkley where we had two tunnelling machines working, 60 people were actually pinged or found to have the virus and we had to take them off site. And therefore we had to shut down one of the tunnelling machines and then move all of the resources onto the critical parts.

So there are real impacts that are actually affecting the industry. But despite that our performances are phenomenal. We've just finished the last of 38,000 nuclear grade concrete segments which actually go into the tunnel. We have probably been running the largest offsite manufacturing in the UK for the last three years in actually building these segments. And we are just about to start on the marine works in terms of actually laying the heads that the tunnels will actually attach to.

Finally in terms of Major Projects, if I take Crossrail, something which I'm sure we're all very interested in in terms of when it will open. We have handed over the Woolwich Station, we're handing over the Whitechapel Station this week. Crossrail for us has been a successful project and what we've delivered, when you go and look at these stations is truly remarkable.

In terms of Highways and Highways England is our largest customer, we are their largest supplier. we are also their best supplier and I believe by a long chalk. If you look at what we've delivered in terms of the A14 which was in joint venture and also what's happening around the M4 it's an amazing achievement. And in actual fact the M4 would be finished on time if it wasn't for the additional safety measures that have been put in on the Smart motorway. So a really strong performance.

In terms of Regional, what's very important in Regional is that we run a lot of frameworks, the SCAPE Civil framework works very, very well for us. We recently completed the Mega Lab in record time using the Crown Commercial Framework. And in Healthcare and Hospitals we are doing the Midland Met Hospital in Birmingham and that underpins our credentials for when the Government puts up the next 40 hospitals for building. So we are really focused on this.

One last thing is our Investment business which I haven't included on here - is that where we are in the regions and in London where we actually have an investment portfolio, we deliver those projects internally and we will continue to deliver those. It could be student accommodation; it could be housing and the likes. But that is an important part of our portfolio going forward.

If I look at the US, the US is a good business delivering to expectations. It's worth pointing out our Buildings business here is about 80% of the revenue where Civils is about 20%. Buildings is performing well, underpinned by the education market, a strong performance in California where we're actually the market leader. The leisure and entertainment industry in Florida was on its knees 12 months ago. That is coming back extremely strongly, the likes of Disney have come back, Universal, hotels and the like, the Broward Convention Centre we're building out.

And a new area for us, for the last seven or eight years, maybe a little bit longer, the Federal market in the US has really been in the doldrums, we're now seeing that come back and we used to be a very strong player in that market. That is now coming back on stream, we have recently won a couple of projects in that area, which is extremely important for our credentials in order to start looking at some of the bigger schemes that will be coming out over the next few years under the Biden stimulus.

In terms of Civils performing strongly in our Road sector, we're dedicated to the Texas and the Carolinas market. Rail, another area of great interest and of course this is all going to be underpinned by the £550m of stimulus from the Government.

We are also looking at driving projects across the piece as one, whereby LAX which is actually an Investments' scheme and this is the people carrier at the airport, the Civils is doing the guideways and Buildings is actually building the station. So a real team effort here. And again this is in joint ventures with three or four others. So meeting all of our expectations at this time.

Infrastructure, it's worth just a few seconds here. Whereas the UK has never really replaced the private partnerships of ten years ago, the US is moving forward. Our UK business at this time has about 2,400 new student accommodation bedrooms on its books, which is the University of Sussex and Royal Holloway. Both of those projects are in the pipeline, and they are being delivered by our UK Construction business.

In terms of our US business what we are seeing and what is very encouraging is the emphasis on P3 and the active encouragement that is actually coming into that area. That is being underpinned by two things, firstly in the new package that's coming out there is going to be $100m dedicated to P3 feasibility studies, which actually will effectively look to stimulate the market over the next three, four, five years. so that is very, very encouraging.

And then in order to ensure competitive financing there is a private activity bond of some $30bn, this is a tax free bond and is designed to actually give low interest rates and returns so that people - or low cost should I say, in order to encourage people to take on infrastructure and join into partnership with the Government.

The LAX people mover was actually financed through one of those private activity bonds and the like.

The last two points I'd make here is that our capability to finance, develop, build and operate is really unprecedented in the marketplace. LAX is here, you can see that's well underway. These are two areas where we're strongly in the last two or three for winning the Clackamas State Municipal Courthouse and also the Broward Municipal building. Those two between them are about £1bn. Interesting in the case of the Broward is that is right next door to the Broward Convention Centre which we're building at this moment in time as well. So a very positive trajectory for US P3.

If I look at Gammon, Gammon has been a consistently strong performer, about 3% post tax each year. What we have seen is a real movement from Buildings to Civils. So whereas our portfolio used to be about 75% Buildings and 25% Civils, it's now 50/50. A strong healthcare market coming through. We have bid two or three hospitals in the last year, we have been unsuccessful but there's 500bn, which is £50bn UK that is going to be spent in that area. Housing, in the municipal area is looking to grow. We are a little wary of what effectively is the high end private market given the uncertainty in Hong Kong at the moment. And data centres, whether actually in Singapore or Hong

Kong we are really a market leader in and that's an area we look to push through and do more of, and also to take that capability around the world.

In terms of Civils the airport is an enormous contract. We recently won a £2bn contract there for the new concourse and also the people mover. So that is underway at this moment in time. And move ahead very aggressively. We are a strong player in Roads and again we'll see a lot of stimulus in that area.

In terms of Rail we built the Kowloon terminus, we don't see a lot of work at the moment on our backlog, but the forecast expenditure says that there will be growth in this area. Our relationship with MTR and the others in Hong Kong will serve us very well. So again meeting our expectations and a very encouraging outlook for the business at this time.

Finally, it's worth perhaps summarising what you've seen today. First and foremost let's not underestimate that we are recovering from a pretty dire period where the COVID pandemic has impacted all of our business. And I think, as a portfolio it's a significant recovery in profitability.

The strategic choices we've made, whether it be London, Gas and Water, will actually help to serve us with reliable earnings over the short term and also in the medium term. The focus on infrastructure and I'm extremely buoyed about it is where the heart of Balfour Beatty is, combined with those capabilities that deliver a net zero world.

So, I think a very positive trajectory all around for our core businesses, but then when you actually lay on top of that the positive future for our Investments business, particularly P3 in the US, I think we're sort of in the right place at the right time and I think we've got a very strong nailed on future which will drive cash, profit and shareholder returns at an enhanced level going forwards. Thank you.

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Questions and Answers

Telephone Operator
Thank you, Leo. There are two ways to submit a question, either through the Q&A facility on the webcast or through the conference call. If you wish to ask a question through the conference call, please press *1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing *2 to cancel. There will be a brief pause while questions are being registered.

If you wish to ask a question via the webcast, please type your question in the Q&A box and press submit.

We have a question from Jonny Coubrough, of Numis. Johnny, your line is now open.

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Jonny Coubrough, Numis Securities
Thanks, Leo and Phil. Three questions from me please. Firstly, on UK Construction, I'm just keen to hear ex the private sector contracts in Central London, what's been the ability to pass through cost inflation and the materials? So what's been the ability to pass through cost inflation in H1, and then also what are you seeing in terms of materials availability, and if these persist whether these can impact into H2?

The second one would be on Support Services. Including the exit of Gas and Water contracts there's been a benefit to profit, and you've flagged previously that there'll also be a revenue impact. I'm just keen to hear kind of beyond next year whether you'd expect revenue growth within the division from Power, Road and Rail Maintenance contracts?

And then the third one on Investments. And you've set out the opportunities at the moment in terms of the feasibility studies within P3 projects. I'm keen to hear just a bit more detail in terms of potential for translating this into new investments and kind of what the magnitude could be there? Thanks very much.

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Leo Quinn, Group Chief Executive
Okay, right. I'll take the first one and what if you ...

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Phil Harrison, Chief Financial Officer
I'll take the second one.

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Leo Quinn, Group Chief Executive
... you take the second one and then I'll try and do the third one. Okay, great.

First and foremost, you asked about ability in terms of cost inflation to pass it on to the client, is it specifically in the case of London. That's an interesting one. I'd say, very difficult because of invariably the contracts are a sort of fixed lump price, lump sum. So that's the bad news.

The good news is that the contracts are largely bought out. You know, they're probably 80% finished, maybe a little bit less, 70% in the other case. So most of the materials are bought out, so I don't see that as a big, big issue.

I can see there is going to be some impact and the impact is not the cost inflation. The impact is that some of the subcontractors who are distressed effectively have underestimated the cost in the job and to replace them would be virtually suicidal. So, we're having to fund and pay that increased cost.

So, I don't think you've got a direct material cost increase, but you do have a distressed subcontractor situation where we're propping them up and keeping them going.

And in terms of material availability, I think for the London jobs we're in a pretty good position. Overall in the portfolio, material availability, cement is a real problem, even for companies like us in this moment in time. Plasterboard was, but that's less of an issue now.

The biggest issue is reinforcing bars and the likes of that. And that's actually causing schedules to have to be altered in order to move workforces to where work can be undertaken because you can't actually get on do the building the cages and casting the concrete that was scheduled in the first place.

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Phil Harrison, Chief Financial Officer
I'll take the Support Services one. You know, the exit from Gas and Water that we announced last year, they're running down now, so revenue will end this year. I think the impact you know, will have about £100m, £150m of revenue that won't be in our 2022 numbers. And then from 2023 on, I would expect from that base we'll start to grow, so you should see a dip in revenues in 2022 and then we'll start to grow back from there.

. . . .

Leo Quinn, Group Chief Executive
I should build on Phil's point that you know, we're very, very optimistic about the outlook for the business, particularly from the point of view that the growth that sits out there in 2023, 2024, 2025, the capability to do that really doesn't exist. So our customers who are sort of very large FTSE 100 companies are looking to work in partnership with us around the delivery as to how do we sort of align our resources with them to deliver those jobs. So you're getting to the point where these things are starting to look as if they'll be negotiated going forward in the future.

In terms of investments, a difficult one to answer because every scheme is different in terms of the amount of equity we put in and whether or not we're in joint venture with somebody.

I'd say typically if I was trying to do a rule of thumb, if it was £100m project, you might find that there's £25m of equity goes into that, and we would sort of manage our risk at about 25% of that equity along with other partners in a scheme.

If you look at our first half, I think you'll see the amount we invested is relatively low, I think it's £8m from memory. As you see cash going in, that usually aligns with an investment coming into the completion in terms of it's actually constructed and ready for use, and that's when our cash goes in because what we're doing is we're actually putting that in at the end of the construction period, not upfront.

I don't whether that's answered your question correctly or not.

. . . .

Phil Harrison, Chief Financial Officer
Can I add to that?

. . . .

Leo Quinn, Group Chief Executive
Yes, please.

. . . .

Phil Harrison, Chief Financial Officer
I mean as we've said, we're always looking at spending about £50m a year at this point in terms of deploying that. You know, we're positive on the US. As we said, we'll always look at the mix of how much to invest. Clearly, in P3s there's usually more debt than equity, it's a higher ratio because typically their availability, and that's some of the things that we're now seeing in the US P3 space that these will be availability-based investments, so that's a positive to us. So, we may take a higher percentage as we go forward in that US P3 position.

. . . .

Leo Quinn, Group Chief Executive
Yeah, Phil raises a really good point there, I meant to make it in my presentation around the fact that all of these, this pipeline we're looking is all around availability, so I think that makes a big difference.

But the other emphasis I'd make is that we're sort of being more selective in terms of the projects we're taking, in the majority will be constructed by our US Buildings and Civils business, which means that we get the wall-to-wall return as opposed to the fact we're just investing in the asset.

. . . .

Leo Quinn, Group Chief Executive
Next question.

. . . .

Jonny Coubrough, Numis Securities
Thanks, that answers my question, very helpful. But if I just go back to materials inflation, what's been your ability to pass that through on the public and regulated side in the UK?

. . . .

Leo Quinn, Group Chief Executive
I should have actually answered that. We have a number of contract protections. So for example, HS2, which is our largest contract at this moment in time, the material inflation will go straight through to the customer, and they carry that risk. In the case of Hinckley, which is our second biggest contract, it's the same there as well.

So, a lot of our portfolio does have contract protections which actually shield us against that. Also if you remember, it's an interesting debate whether or not this is post-COVID or whether this is Brexit, and no one can ever separate them out. We advised everybody that we had even in our Regional Construction business put a clause in around Brexit inflation and that any extraordinary inflation we would look to pass on.

So, I'll never say never, but the fact is in the majority of our backlog, I'd say we are protected against material inflation. I'm also hoping that it's a blip and it isn't a sustained increase in the business.

. . . .

Jonny Coubrough, Numis Securities
Okay, thanks very much.

. . . .

Telephone Operator
We have a question registered from Pam Liu of Morgan Stanley. Pam, please proceed with your question.

. . . .

Pam Liu, Morgan Stanley
Thank you very much. I also have three questions please. On restructuring, after exiting Central London Residential in UK Construction, and Gas and Water for Support, I'd like to understand on your order book standing today, what is the percentage exposure that you think could be also exposed to similar risks or future restructuring risks? So basically, are we likely to see further restructuring in the next half of this year or in 2022?

Question number two is about the US P3 market. Is it fair to say that the majority of the US P3 market pipeline today is in Transport Infrastructure instead of Social Instructure? And would you remain focused on Social Infrastructure like you have done with the US Military Housing and Student Accommodation, or would you consider venturing into Transport Infrastructure as well?

And following to that you know, what's your thoughts on the UK Infrastructure market? We know that the golden days of PFI have gone, but you know, could there be a chance of them returning or something similar to that returning one day given the ambitious sort of infrastructure building plan that the Government has?

And my final question is on green construction. So could I please understand how much of that is driven by your customers' requirement, such as a customer specifying that they want to use low-carbon concrete in a tender for example, and how much of that is Balfour Beatty proactively driving for positive change in helping your customers to understand what more they can do?

Thank you very much.

. . . .

Leo Quinn, Group Chief Executive
Yeah, okay.

. . . .

Phil Harrison, Chief Financial Officer
Want me to do the third one?

. . . .

Leo Quinn, Group Chief Executive
Yeah, go.

. . . .

Phil Harrison, Chief Financial Officer
So on restructuring, London, which is the specific now, clearly, we've exited Gas and Water, there won't be any kind of run-off from this year. All of the order book will be off the books, so we don't anticipate anything further on Gas and Water.

On London we probably have an order book in the region of £150m that we have to get through over the next couple of years. It could be £150m, £200m, so that's our London exposure.

We're not exiting Buildings per se, we should make that very clear. It's just a very unique situation in Central London, and the value's around about that £150m of order book.

. . . .

Leo Quinn, Group Chief Executive
Okay, I'll take your last one, the thing around green construction and who's driving the change. Let me be really, really clear on this, is that we respond to customer demands, so we're not out there pushing the frontiers of new technology around zero carbon concrete and the likes of that because the technology is just too new and too nascent, and it would come with an awful lot of risk. So at the end of the day, we're making sure that we're compliant with the market.

It’s also, I think, very important to realise that in tendering to local authorities and councils what you're doing around community value, what you're doing around the green agenda is a licence to operate and it’s a prerequisite. So the idea is we’re all moving along in tandem. We’re taking a step forward. Local authorities, customers are taking a step forward.

From our point of view, we’re not wanting to be out on the bleeding edge of this. You know, we’re too big a company to take that risk that risk at this time.

In terms of US, the private market, did you want to say something on green?

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Phil Harrison, Chief Financial Officer
No, I was thinking more on P3 actually.

. . . .

Leo Quinn, Group Chief Executive
Right, you do P3 and then I’ll build on that.

. . . .

Phil Harrison, Chief Financial Officer
Yeah. So, I think on P3, I think the key thing here, Pam, is that we are actually in Transport. LAX is one of the biggest Transport P3s going on in the US at the moment. So, we are deploying into that Transportation sector.

The one area we won't touch in the US P3s in Transport is toll roads. A lot of people have been burnt in toll roads in terms of investment, so that’s an area that we’re not particularly interested in, but we will look at the right transportation.

I think at this point we see some very good return opportunities in Social Infrastructure, particularly in the building side. so that’s a focus. But I also should remind people that we’re also intent in continuing in investing in our UK Investments business as well. We have, as we said, Royal Holloway, in student accommodation, there is a pipeline there as well.

But we’re going to be selective as always in P3 and get the best return, but we can do transport.

. . . .

Leo Quinn, Group Chief Executive
Yeah, I think you’ve covered that well. In terms of social as well, don’t forget the municipals which are in our statement, whether it be the Broward County or the Clackamas. Also Prince George’s Schools, I think in Washington.

Again, Schools is a very, very big market in the US and as this takes off, we want to really be at the centre of that because it's a very good market.

In terms of the UK, of course we're all aware of the Infrastructure Bank which has been rolled out. I know it's still finding its feet, but that's the UKs version of how they're going to fund some of this public and private investment, but again, it's still to be finalised in the wash. And as Phil said very importantly is you know, student accommodation, very, very important. We're very focused on campus developments and we've got about 2,400 rooms on the books at the moment that we're building out.

Hopefully that answers your question, Pam.

. . . .

Pam Liu, Morgan Stanley
Yes, that's perfect. Thank you very much. Can I squeeze in more? It's just asking for a quick update on the contingent liability for cladding if that's possible, you know, have all the risks been identified and is that already included in the contingent liability assessment? Thank you.

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Leo Quinn, Group Chief Executive
Phil, do you want to touch on that?

. . . .

Phil Harrison, Chief Financial Officer
Look, the contingent liability note in the half year, it's a very initial area we've got. There's a big level of uncertainty, that's why it's a contingent liability.

We've had one development in London where we have a stone cladding on the building and the concern is the performance of that stone cladding in terms of durability and lifespan. So, we're now looking at what the next stage is to see how do we fix it. We'll then move on to how much that will cost to the fix as soon as we know what the fix is. And we'll also look at who's going to pay for it because clearly, there'll be a level of ownership in the supply chain and probably insurance. So it's an emerging issue that we'll report on as and when we know more.

Do you want to add any more?

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Leo Quinn, Group Chief Executive
No, no, I think you've said it.

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Pam Liu, Morgan Stanley
Thank you very much.

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Telephone Operator
Thank you. Our next question comes from Marcin Wojtal of Bank of America. Marcin, your line's now open.

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Marcin Wojtal, Bank of America
Yeah, thank you very much. I've got some questions on the numbers if you'll allow me.

So can you just confirm that in the Construction division you expect your performance in the second half in the UK to be normalised or let's say close to normalised despite the losses in the first half?

And question number two, thinking about the Construction division for 2022, do you expect to hit the industry standards margin of 2% to 3% which was something that you previously defined? So is that a realistic objective for next year?

And lastly, a different topic but considering you are pulling out from certain types of projects in London, does it have any implications for your pipeline in Infrastructure Investment, or the pipeline is the same? Thank you.

. . . .

Leo Quinn, Group Chief Executive
Yeah, I'll touch on the third one first and say there's no implications for Infrastructure Investments. We will continue to do what we do. We'll complete the projects that we're working on, and we'll be looking at the right investment opportunities going forward whether it's in Central London or other parts of the UK.

Phil, do you want to do the ...

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Phil Harrison, Chief Financial Officer
Yeah, I'll do the numbers. Look, we're not changing our view on the second half, so that means we are anticipating that we're going to normalise. We've taken our best estimates of the London jobs at this point and therefore, we think we've covered that.

In terms of next year, we're planning to be in that range in terms of our target range of 2% to 3%. So no change to those things.

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Marcin Wojtal, Bank of America
Very good, thank you.

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Telephone Operator
We have a question from Gregor Kuglitsch of UBS. Gregor, please proceed with your question.

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Gregor Kuglitsch, UBS
Hi, good morning. Thanks for taking my question. So, my question is just back to the UK Construction business. I guess it's a two-fold question.

The first one is, why is this a Residential issue only? I mean obviously it relates to sort of potentially extended delivery timetables and therefore additional cost, which you're kind of partly liable for. So why doesn't it apply to, I don't know, a commercial tower? And I appreciate that maybe you're more protected on the public side, but why is it specifically London and specifically Residential?

And then I guess, and this is maybe not you, but kind of just looking back for the last sort of five, six years, basically ever since you guys started, and if I kind of sum up the UK Construction business basically made no money, right? I mean, over time. You know, yes, some years were profitable but then last year was soft, and this year break even, US looks good, Hong Kong looks fine, the Support Service is increasingly good. I mean obviously it's a core business of yours but is there something kind of wrong here, right? Because basically as a through cycle it doesn't seem to be making much money. So that's the UK question.

Then the second question is maybe on Support Services, obviously you've had a great half and you've obviously raised numbers. But what's really changed, what gives you the confidence that all of a sudden, this business makes 6% to 8% rather than 3% to 5%? It's obviously a massive change. And if I look back, I mean I can't remember this business or any of your peers being anywhere near that kind of level. So I want to get an understanding of what's sort of structurally changed that allows you to put out that sort of guidance. Thank you.

. . . .

Leo Quinn, Group Chief Executive
Good. First and foremost on the Residential one, I'm just trying to rack my brain. I'm not sure that we actually have a commercial offering in the London market if I think about it.

But the primary issues around high-end Residential, so very high spec, very high finishes and high-rise. You know, if I go back to Christmas when I was visiting one of the jobs, just before Christmas, we walked onto of the jobs and we've got 400 people on site, we've got all the COVID restrictions, we've got two lifts moving people up to the 40th floor, two people at a time. So you can imagine, to deploy 400 people to work, that's quite stressful.

Obviously, you then work about how you fix that, but fundamentally the issue is around high-rise, high-spec Residential in Central London. And that's actually the market for it, so that's where it is. It doesn't really exist in the same way in our portfolio outside of London. So that's the real point around that.

In terms of you raised the thing around the continuing profit from the UK Construction, you've got to go back. It's like everything, it's where you want to start your accounting from. If you go back to '13, '14, '15 or '16. But if you look at the period post, the 89 distressed projects that we had in London, I think you'll see that it is profitable going forward. So, I think it's really a question of where you want to account it from.

There's no doubt in my mind, as I made very clear, that high-end Residential, Central London is a no-profit zone for the whole sector and something will have to change in that going forward in the future, I can only imagine that it'll actually be done on a construction management-fee basis.

In terms of your other one around the Support Services confidence, I mean look, first and foremost that's a very easy question to answer. In the case of Gas and Water, that was a loss-making business for the last three years both in terms of profit, heavy working capital and negative EVA. That's taken out of the portfolio, so you get a filler from that.

The margins in Power have improved year-on-year. I can't give you the outcome at this moment in time because it's sensitive, but you could assume it's high single digits as a business. We know where our Rail business is, and we know the work that sits before us that we'll actually be undertaking. And in the case of our Roads contract, Living Places and the CPS contract, we know the profitability in all of those.

There are a couple of other bits that fall into the Service portfolio, but you know, I'd have to say I'm very confident on the 6% to 8%. And the interesting thing is all three of those businesses are very well run and they all execute very well.

Do you have anything to add to that?

. . . .

Phil Harrison, Chief Financial Officer
All I'd add to that is that clearly, over the last few years as we've been restructuring that business, we've taken a lot of operating costs out, so there's a lot of self-help that we've done on overheads. So that also gives us the confidence of why we think we're now in a different range for that business. You know, our key now is grow that business 2023, 2024, 2025.

. . . .

Leo Quinn, Group Chief Executive
The other thing as well on that business for a few seconds is that in our Services business there's an awful lot of pull-through that will actually occur because of the large Infrastructure projects, whether it be Highways, and I'll give you an example. Recently on the HS2 contract, our Living Places ended up doing the networking roads on the A425 for reasons that they were the actual people that do all the road maintenance for the Worcester Council. That road is governed by Worcester and that capability combined with HS2 meant that that work could be done easily to programme and cost effectively and pull-through.

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Gregor Kuglitsch, UBS
Okay, I think that's clear. Maybe a final one on the working cap. So you're obviously above the range which you've nudged up a bit, so if you could help us out a little bit, how quickly if at all, I think you were suggesting it online, and maybe that the CFO speaking rather than the CEO speaking, but just some colour on the working capital normalisation that we should expect ...

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Leo Quinn, Group Chief Executive
Phil doesn't usually allow the CEO to talk working capital.

[Laughter]

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Phil Harrison, Chief Financial Officer
Have a go if you want ...

. . . .

Leo Quinn, Group Chief Executive
Over to you, Phil, because I mean, you can bask in my reflective glory here.

. . . .

Phil Harrison, Chief Financial Officer
Yeah, it's all Leo who's done all of this work on working cap.

Look you know, we've raised the range a little bit, we were 10 to 12, we've gone to 11 to 13. That's to take into account clearly, we've gained about 0.8 of a percent on the DRC VAT which until HMRC changes the rules again, that'll be with us for a number of years, so that's why we've increased that.

Our half year, you know, as a percent of revenue, we were at 14.2. We left the year at 12.1. Clearly that's kind of driven the working capital increase, the DRC plus our milestone payments that we've got on jobs in the US.

I anticipate we're going to see some unwind. We'll clearly have some cash outflow on Central London jobs as we do those. And then the rest of the outflow, I think there'll be a small unwind. The rest of the outflow on jobs will probably more than likely be late 2022 and into 2023 actually in terms of working capital as we see it at the moment in terms of the contract mix that we've got.

Does that help, Gregor?

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Gregor Kuglitsch, UBS
That's fine, yeah. That's helpful. Thank you very much.

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Telephone Operator
We have a question from Andrew Nussey of Peel Hunt. Andrew, the line is yours.

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Andrew Nussey, Peel Hunt
Me, yeah. Good morning, guys. A couple of questions from me. Firstly, just going back I'm afraid to London Residential. I think if I've wrote it down correctly, I think you said £150m to £200m still to complete. Can you give us a feel for what percentage of completion of the overall projects have been delivered?

And secondly, Leo, you mentioned that the supply chain is under stress. Could you give a feel for if that's more just the operational stress as opposed to maybe financial stress?

And thirdly, on Gammon, I appreciate revenues are lumpy because of contract timings. Can you just give us a feel for how certainly over maybe in the next six, twelve months the order book in Gammon is going to translate into some form of revenue guidance please?

. . . .

Leo Quinn, Group Chief Executive
Phil, you do Gammon and I'll do the percent complete.

. . . .

Phil Harrison, Chief Financial Officer
Yeah.

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Leo Quinn, Group Chief Executive
So, of the three one will complete early in the fourth quarter all things being well and all challenges being overcome. The other two will complete in 2022. We're looking to accelerate the schedules, because the reason is that it might cost you more to accelerate but it costs you an awful lot of money just to have the project open and running. So we're trying to get one off the books at the end of the first half of 2022 and then the final one at the end of 2022.

So, that gives you a sense of our completion. I suppose on that basis one is 90% complete, 93% complete, another would be 80% and then the other would be about 65%. That's your sort of order of magnitude. Hopefully that answers your question.

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Andrew Nussey, Peel Hunt
Yes, that's helpful, yeah.

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Leo Quinn, Group Chief Executive
The strain actually on the supply chain. Look, at the end of the day every job is an operational strain, there's always drive and there's momentum and you're pushing. But no, we're talking about there is real financial strain, and I know in once case where the developer has had to go back to the bank in order to sort of raise more funds, which invariably that becomes a challenge and requires a lot of work to achieve that and support from us.

But also the supply chain itself for the SMEs, you know, some of them are actually not from the UK, the materials that they supply are not from the UK. In one case for certain, if not two, the parent abroad has actually gone bankrupt, so what we've done is we've locked down all the materials and those we've brought into the UK in order to complete the job, and the UK part of their organisation is financially stressed. So we're actually keeping them afloat week-to-week in terms of covering their bills and paying them.

So financial stress is a real issue in the supply chain, but the priority is making sure we get the job finished.

And then Gammon, would you mind doing Gammon?

. . . .

Phil Harrison, Chief Financial Officer
I've forgotten the Gammon questions.

. . . .

Leo Quinn, Group Chief Executive
Oh, the Gammon was around the backlog and how it would convert realising it's lumpy…

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Phil Harrison, Chief Financial Officer
Okay, I mean one of the big things on Gammon is that certainly on their backlog they've got the airport which will play out over the next three years, that's probably the biggest element of it. And then they've got some road building again over the same period.

But they've typically replenished and held their order book at a reasonable level, so I'm not anticipating a huge order book churn, especially with MTR and those items coming up. So, I think we're going to be relatively stable in order book terms in Gammon.

. . . .

Leo Quinn, Group Chief Executive
Yeah, I would agree.

. . . .

Andrew Nussey, Peel Hunt
And that's translating into revenues?

. . . .

Phil Harrison, Chief Financial Officer
Yeah, absolutely.

. . . .

Andrew Nussey, Peel Hunt
Yeah, okay. Thank you.

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Telephone Operator
We have a question from Stephen Rawlinson of Applied Value. Stephen, please go ahead.

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Stephen Rawlinson, Applied Value
Good morning chaps. I'll apologise in advance, despite all the good work you've done over the last six or seven years, I'm also going to be asking you about London and

Services, so forgive me on that. But well done on all the other great things you've been doing, but let's just focus firstly on London, which was a problem I think even six or seven years ago with stuff like Sea Containers House, so it's never been a happy hunting ground.

But set me right, you said it's three or four projects I think, Leo and that's, is it three or is it four or could there possibly be more which has not yet been fully identified?

But more importantly, where do we draw the line as outsiders? Where do we draw a line on outsiders on how much this will cost? Because generally when construction projects start to go wrong, they go worse, and that's been the history in this sector for many years. So, I just wondered if you could help us there as to where you believe that line should be drawn. Is it within the provisions and losses that you recognise today, or should we be thinking about something a little bit different? You've mentioned also insurances, so there will be an amount of uncertainty, I recognise that.

And secondly, can I just ask a question about services? I mean the 6% to 8% margins; I get that because others already are achieving them in the areas that you've talked about in the UK. What I wanted to know was what is the path towards that? Because obviously, if revenue is down a little bit next year because Gas and Water, are gone, the absorption will be lower. You're achieved about 6% in all of this in underlying terms without the one-offs in the first half of this year in that area, should we thinking about the £1bn a year revenue in this area at 6% to 7% margins as the sort of cruising altitude going forward, or have I got that a bit wrong?

. . . .

Leo Quinn, Group Chief Executive
No. Right in your three to four it's three and then the contingent liability is the four. So hence three, maybe four because the liability is not established on that.

. . . .

Stephen Rawlinson, Applied Value
Yeah.

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Leo Quinn, Group Chief Executive
First and foremost, I think you've picked up on something which is actually extraordinarily perceptive. It's very easy to get distracted by the moth or the fly, but the performance of our Infrastructure business, Major Projects and the likes of that all around the world is really quite phenomenal and it's a real powerhouse and an engine for the future. Unfortunately, the good work it's doing is being masked by one or two of these challenges.

And in terms of Services, you'll answer the question on that.

. . . .

Phil Harrison, Chief Financial Officer
I'll do that.

. . . .

Leo Quinn, Group Chief Executive
In terms of where you know, when these projects go wrong, they continue to go wrong, I couldn't agree more with you. I mean that is the nature of the industry. At this time we think we've taken the best effort and put together a robust viable forecast based on a new programme to complete. Never say never, but I think we feel that given what we know now, we are adequately provided for it.

And of course remember, it's not like that necessarily will all materialise because it is actually in dispute. Phil?

. . . .

Phil Harrison, Chief Financial Officer
I'll do, yeah, the Services. Stephen, hi. At the moment you know, our underlying Services are operating in the 6% to 8% range. I think you're quite right, if you look at 2022, I think we're confident that we're at least going to be in that 6% to 7% range because clearly, we're operating at the 6% range at the moment.

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Leo Quinn, Group Chief Executive
And then the size of that revenue going forward is about £800m, from memory.

. . . .

Phil Harrison, Chief Financial Officer
Well we've not commented on that, but if you think we're doing about £1bn this year, I've said that Gas and Water was contributing £100m, £150m, so you're more like £900m.

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Leo Quinn, Group Chief Executive
Okay, right. Does that ...

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Stephen Rawlinson, Applied Value
I was thinking that there might be more [audio jumps] going forward and that might something that's in your plans. But notwithstanding that, that's fine, that's great. Thank you very much, very helpful.

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Telephone Operator
Thank you, Leo and Phil. Unfortunately, we are out of time for any other questions.

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Leo Quinn, Group Chief Executive
Look, thank you all for your time this morning and very interesting feedback and questions.

You know, I would just summarise by saying, you've to remember that one of the big advantages about Balfour Beatty is we are a very diverse portfolio. Whether or not you can see it through London, there is a strong recovery in profitability across the group in the first half.

We remained buoyed by what we see with Infrastructure over the medium and the long term, and the portfolio choices that we've put in place I think will deliver reliable earnings in the short term and the medium term. So again, I think a good, rounded portfolio with a good strategy and path to the future.

Thank you for your support.

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Telephone Operator
That concludes the Balfour Beatty half year results.

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