American Association of Port Authorities Facilities Engineering Seminar and Expo

Charleston, South Carolina
November 18, 2009

Economic Challenges of Sustainability
Sustainability

a means of configuring human activity so that society, its members, and its economies are able to meet their needs and express their greatest potential, while preserving biodiversity and natural ecosystems in the very long term.

easily put…

sustainability is about thinking and acting in the future tense.

(Planning for the Future)
Sustainability:
Outline

• The Leader Business Spectrum
• How Sustainability Creates Value
• Why is the Business Case So Difficult?
• Implementation Strategies
• Port Development Project Economic Considerations
• Example of Pushing Towards Sustainability Leadership
• The Opportunity to Lead
The leader business spectrum

**Beginner**
- Understanding of key CR issues
- Compliance systems in place

**Performer**
- Senior-level buy-in
- Vision of sustainable future
- Systems in place to delivery

**Leader**
- CR a strategic opportunity
- Sustainable innovation across business

**Pioneer**
- Business model refocused to profit from sustainable value creation
How sustainability creates value

1. Create value
2. Identify material contribution to drivers of value
3. Calculate specific financial contributions
4. Combine to give addition to value

- Activity
- Initiative
- Decision

- Turnover growth
- Margin growth
- Reduce capital expenditure
- Risk reduction
- Duration of competitive advantage
- Reduced cash tax rate
- Reduced cost of capital

Calculations for the material contributions to value

Additional value
**How Sustainability Creates Value (cont’d)**

<table>
<thead>
<tr>
<th>Financial Drivers</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce capital expenditure</td>
<td>Avoiding unnecessary demand for fixed assets</td>
</tr>
<tr>
<td>Duration of competitive advantage</td>
<td>Shaping the market to the company’s advantage</td>
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<tr>
<td></td>
<td>Attracting people</td>
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<td></td>
<td>Prompt action on emerging strategic issue</td>
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<tr>
<td></td>
<td>Enhanced access to key resources</td>
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<tr>
<td>Reduced cash tax rate</td>
<td>Reduced payments to government</td>
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<tr>
<td>Reduced cost of capital</td>
<td>Improved access to financial capital at lower rates</td>
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</tbody>
</table>
## How Sustainability Creates Value (Cont’d)

<table>
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<th>Financial Drivers</th>
<th>Turnover growth</th>
<th>Margin growth</th>
<th>Risk reduction</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Product differentiation</td>
<td>Eco-efficiency</td>
<td>Increased security and quality of supply chains</td>
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<tr>
<td></td>
<td>New products</td>
<td>Motivating and retaining people</td>
<td>Reduce regulatory risk</td>
</tr>
<tr>
<td></td>
<td>New customers / market share / reputation / brand equity</td>
<td></td>
<td>Reduced reputation risk</td>
</tr>
<tr>
<td></td>
<td>Innovation</td>
<td></td>
<td>Maintain license to operate</td>
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Why is the Business Case so Difficult?

There is no “one size fits all” business case

The “societal case” doesn’t automatically for all make a business case

People have led with “responsibility” which feels like compliance

The more you look, the more you find

Sustainability and finance professionals speak different languages

The “no business case, no permission” vicious cycle

- Only try to find your company’s business case
- Don’t expect a business case to exist now the things the company needs to do
- Opportunity trumps responsibility: frame sustainability as a way of unlocking opportunity for the company now and into the long-term
- Plan to explore how to make sustainability commercial, and how to keep improving your company’s business case
- Frame the case for sustainability in terms your finance director will understand, ideally in drivers of shareholder value
- Plan small steps to iteratively a virtuous circle of permission and results
Implementation Strategies

1. See finding your business case as part of a wider change program.
   • Who are the key stakeholders? Who can be your champion in the finance function?
   • What are your consistent key messages?

2. Go to the finance department with a safe pilot.
   • Identify a decision/project which won’t trigger defense routines and only needs a small amount of resource to investigate.

3. Use the pilot to build credibility and awareness.
   • Where possible, have the finance function do the analysis – building their capacity
   • Demonstrate you are concerned with finding the business case, not only justifying sustainability

4. Keep creating a “permission and results” cycle
   • Address larger and more important areas: key decisions and financial processes (ie capital expenditure)
   • Keep building capacity of key individuals along the way
Port development projects
Economic considerations:

• Longer Term benefits
• Lower discount rates
• Lower transportation costs
• Less ship delays
• Direct/indirect sub job creation
• Induces/supporting jobs
Example of pushing towards sustainability leadership:

**Balfour Beatty 2020 Vision**

**PROFITABLE MARKETS**
- Customers
- Influence

**HEALTHY COMMUNITIES**
- Our people
- Our supply chain
- The communities we serve

**ENVIRONMENTAL LIMITS**
- Climate change
- Materials
- Waste
- Ecology
- Water

**LEADERSHIP**

**INNOVATION**

**INTEGRITY**

**LONG LASTING**

**Sustainable**
**Successful**
**Balfour Beatty**
Example of pushing towards sustainability leadership (cont’d)

Balfour Beatty will deliver, manage and own sustainable infrastructure that helps communities and individuals live within environmental limits. We will build on our heritage to lead the sector in providing our customers with a combination of innovative solutions, and engineering excellence that lasts, all in accordance with our ethical framework.

We believe that profitable markets, healthy communities and environmental limits are not competing interests; they are shared outcomes that closely align with one another. In order to be a successful and profitable company, we need to realize that alignment.

Over time, our leadership will lead to sustainable infrastructure consistently being the best option.
“More capital is now focused on sustainable business models and the market is rewarding leaders and the new entrants in a way that could scarcely have been predicted even 15 years ago.”

The opportunity to lead

• **Sustainability does pay**
  “Most executives (57%) say that the benefits of pursuing sustainable practices outweigh the costs”…involves “a shift away from defensive behaviour towards more active exploration of the opportunities sustainability can present”

• **Execution is problematic**
  “On a range of environmental and social outcomes less than 10% of respondents rated their efforts as outstanding on each, barring public relations”