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Balfour Beatty

Half Year Results Presentation

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Balfour Beatty

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Summary & Operational Overview

Leo Quinn, Chief Executive Officer
Good morning everybody, I'm Leo Quinn, Chief Executive of Balfour Beatty and I'll be supported today by Phil Harrison, our Finance Director. I think you know both of us.

Just running through the agenda, I'm going to give a short two slide summary and overview very quickly, Phil is going to take you into a lot of the detail and the facts behind all the statements that I'm making and then I'll give you an update in terms of Build to Last and the progress that we've made.

So on that note, first and foremost it's good actually to be reporting out at this time with a set of results which are clearly demonstrating some of the progress that we're actually making. I think about the company and the results as almost like an iceberg, you know the top 10% is actually the financials and you're seeing those on the slide, but the 90% underneath and all the things that are going on are quite remarkable.

There's a lot of change in the company and it's very interesting despite all of that change how morale is actually moving in a very positive direction. So a real reflection I think on the fact that our employees and I think everybody does respect the direction and a sense of strong leadership.

If I take you back 18 months ago we were a company that was haemorrhaging cash, we were making absolutely massive losses and fundamentally the business was just unforecastable. We had 89 distressed projects and I can always remember actually trying to prioritise or mark those things that are urgent of all the 89 urgent things that we've had. So when you've got that situation you realise that it's pretty chaotic. I think today we see quite a bit of stability in the company and we actually see the ability to forecast has improved quite dramatically.

18 months ago one of the primary things we had to do was just stop the merry-go-round and just get off it for a few minutes. We moved away from this passion and this focus to grow and to grow at all costs. And we actually had to put in place a gated lifecycle process and start to become more selective about out bidding. And these results I think are a demonstration of the simplification of the Group, but also the selectivity that we've actually put into the business.

From a top line perspective we're up some 7% and that’s actually at higher margins, at better cash flow, at lower risk. So a lot of the jobs we're entering into are done through a two-step process. So therefore we actually agree the margin, and the mark up, and the cash flow at the beginning and then we look at actually working up the costs together. So that's very encouraging.

Our revenue is down 6%, which is absolutely deliberate, because if you look back at all the revenue we had and we were losing money, what's the point in being a busy fool and prosecuting that sort of work. So the fact that we've got less revenue is actually, believe it or not, encouraging.

Underlying profits are about £7m. A small profit, but the fact is this is the second half year in a row where we've actually generated profit, which I think is again encouraging and moving in the right direction.

Net cash at £115m, shows our continued strong focus on our working capital and maintaining those disciplines. From a pension point of view we've always had a very mature relationship with our pension trustees. We've agreed in the latest valuation that we would actually - on an IAS 19 basis, which is an accounting basis, which I'm reminded by Phil says that we're actually in a surplus, on a cash funded basis we still have repair to do in the pension, but on a triennial valuation we've now halved that deficit by virtue of the way we've actually managed the pension itself, which actually is extremely good news. You know because pensions are real liabilities.

Also, in terms of the dividend, if I look towards 2017 and 2018, beyond the 24 month self-help plan that we've put in place, we're confidence in that outlook to reinstate the dividend, although at a modest level, it's a great place to start from and I think that's very encouraging and underpins the Board's confidence in what we see in the future.

If I move onto the next slide and give you just a very quick update in terms of the progress in terms of Build to Last. When we launched Build to Last some 18 months ago I think it's really important to remember that what we were trying to do was actually stabilise the ship.

The single most important decision we made around Build to Last was actually that we were going to take the company from a federated organisation, which is 14 divisions doing their own thing, running their own business, having full capability, all the way from selling through to almost managing their own pensions. I remember we had 14 IT Directors, just by way of an example; it was clearly a nonsense, unsustainable and unaffordable.

Our costs as a result were far too high, we'd delivered seven profit warnings, we'd emerged from a situation where we had sort of failed merger talks. Our safety performance was improving under zero harm but was a long way from best in class. Build to Last was launched around those three themes of Lean, Trusted, Expert and Safe. And in the area of Lean it was about 200 in, 100 out. You can see that we're ahead in terms of the cash flow of 200. We're at 88 in terms of cost out which effectively is demonstrating that we're well on the way to deliver on the 100.

We're continuing to simplify the organisation. We sold our last asset down in Australia. Australia is a long, long way away and a long way to manage things from. We sold our interest in BBIP which is our Balfour Beatty Investment Partner which effectively was an arm's length organisation that actually we were investing in and perhaps an area that we shouldn't have actually been in.

In terms of the organisation itself we've made further upgrades to senior management. In the United States we've actually brought the business together under a single leader and we're going to be rolling out the same thing that we've done in the UK around centralising the back office and driving the benefits out of that.

We've launched new processes and systems in terms of not only the IT infrastructure data analytics but more importantly our gated lifecycle process and that's actually showing real benefits.

Culturally we really are gaining momentum. When I joined 18 months ago the first slide in the first presentation was effectively a stick man standing on an orange box, and for those of you in the UK that's a little bit like Speakers' Corner where you've got one guy talking to a crowd of people and most people aren't listening and they're walking by. If I think of the organisation today what I see is hundreds of stick men on orange boxes all pointing in the same direction, all giving the same message which says to me that the cultural transformation, the changes we're making in fact within Balfour Beatty are now actually truly starting to take effect and it's not just me on the orange box on my own.

So on that note I'm going to hand over to Phil and his orange box.

Financial Review

Phil Harrison, Finance Director
Thanks Leo. I'll cover the headline results first of all for half one 2016. I'll cover most of these items in separate slides later but just to make a few comments on the overall numbers. Group revenue saw a small expected decline to £4bn. The Group generated an underlying profit from operations of £5m, and after net interest income of £2m in the first half, this translates to an underlying pre-tax profit of £7m.

Underlying earnings per share were 2p so H1 2016 is a significant improvement on the losses booked in half one 2015. You'll also notice this is now the second consecutive half of profitability after a very tough two years of losses for the Group.

All of these things and the demonstrable progress that the Group has made under the Build to Last transformation that Leo has talked about give the directors the confidence to reinstate the dividend with a declared interim dividend of 0.9p. Going forward we anticipate a one third/two third split between the interim and final dividend. More importantly we have reinstated the dividend at an appropriate level with the expectation of a progressive dividend policy going forward.

I'll cover the order book on the next slide. I'll also talk about the Directors' valuation and our net cash position on later slides - but it's worth remembering that these underpin our balance sheet which remains one of the strongest in the sector.

Now moving to the order book. As you will see the order book was up very strongly in the first half increasing by 13% to £12.4bn, but the underlying growth is about 7% once we strip out the FX benefit in our US and international joint ventures.

The Construction order book increased by 15% to £9.1bn, stripping out the impact of FX it grew by 7%. This was driven by an increase of 11% in the UK and a 17% increase at constant exchange rates in our Gammon joint venture in the Far East. US growth was almost entirely due to FX with just 2% growth at constant exchange rate.

It's worth talking about the UK growth for a moment. During 2015 we focused on improving the quality of new orders. By that I mean using more realistic cost assumptions, increasing the margin and enforcing better terms and conditions. In the short term it resulted in lower order intake in 2015 as the business adjusted to these higher thresholds.

To give you a bit more granular detail the growth in the first half came in the regions that we constrained the most in 2015 such as London and the south. Last year in London we were very firm in walking away from contracts that didn't have the right margin or terms. The growth we have seen in the first half have been controlled and without compromising on our improved bidding disciplines.

Turning to Support Services the order book grew by £200m to £3.3bn. It's worth remembering that the Support Services business wins large multiyear contracts, which we book in one year and unwind over the following years.

In the first half we won two sizable contracts in Transportation; we were awarded £117m contract extension for London Underground and a £245m Highways maintenance contract across three county councils. So in summary we stabilised the order book in 2015 and we're now delivering in our expectation to return the business back to growth.

The growth in the order book this year will feed into revenue growth in future years.

Now a slide on the financial performance of each segment, starting with Construction Services. The Construction Services segment has been the source of the Group's poor performance over the last few years. Looking at the overall results for the division, revenue was flat at £3.2bn, but was actually down 5% at constant exchange rates. And as you'll see the total losses for the division was £60m.

I'll now discuss each part of the business in turn, starting with the US - if we strip out FX revenues in the US were relatively stable with 1% growth, but importantly the US returned to profitability in the first half with a profit of £12m. This equates to the first half margin of 0.74%, this still contains some losses on historic jobs, but I'm pleased we have still been able to deliver to a more normalised level of profitability as we promised.

Looking at the UK, revenues declined by 23% to £862m, this is simply the order book reduction in the prior year now flowing through as lower revenues in the current year. Looking at the UK by region, the greatest declines were in the regions where we had the greatest contract issues historically and where we managed the order book down last year. Over half of the £255m decline came in London where we took on fewer jobs and stopped bidding entirely on contracts under £5m.

However, the lower revenue base is partly just a timing issue, the UK order book growth we discussed on the previous slide; we'll see the UK return to growth in due course, but probably not until 2017. The losses in the UK of £66m were substantially lower than the first half of 2015, but are slightly higher than we hoped.

The loss in the period was caused by three main factors, additional losses incurred on historical contracts, lower overhead absorption due to the lower revenue base and newer projects not contributing gross margin in the period, because we were being more conservative and robust in not recognising margin until sufficiently through the life of the project.

Stripping out the impact of the additional losses on historical projects, the UK would have been close to breakeven. Therefore we are expecting to deliver a profit in UK Construction in the second half.

I'll give you an update on the 89 problem contracts on the next slide. I'll only briefly touch on Rail and it is only a very small part of the division, revenues were slightly up but it did contribute a small loss, but I would expect a similar performance in the second half.

Now moving to our international joint ventures, starting with Gammon on the Far East, revenues in constant currency were flat on the prior year, profits were a little lower at £3m as we've been more conservative in how we recognise profit at the early stages on large projects.

Finally the Middle East - revenues grew quite strongly as we started to see revenue coming through from the orders booked in the prior year. These were good quality orders such as the new container port - container terminal at Jebel Ali Port, where we know the customers, we've historically done most of the port construction and what we want to do is diversify our risk in the region. The loss is substantially reduced from the prior year, but remains a challenged market as we said in March at the 2015 results. I'm anticipating a similar performance in the second half.

Now to look at progress we've made in closing out the historical contracts in the UK. This is the same slide that I first presented this time last year and updated you on in March at the full year results. It's a tracker of 89 UK contracts that have been distorting the profit and cash performance of the Group. We have made good progress in closing more of these contracts out, we're now continuing onsite on only 17 jobs, down from 36 in December. This means we've now reached practical or financial completion on 81% of these jobs at the half year.

There has also been good progress in taking projects from practical completion to financial completion. Practical completion is an important step, which is where we've finished on site and therefore we'll no longer be spending further costs to complete the project. However, financial completion is the ultimate goal, when settlements are agreed and the final accounts are signed off. As discussed earlier we've incurred further costs on these projects, mainly as we move projects to practical completion. But the good news is that we're still on course to be at practical or financial completion on 90% of these projects by the end of 2016. Once these projects are closed out we'll have a much cleaner P&L in 2017 and beyond.

Now moving to Support Services, revenues in the first half were down 11%, due to the phasing of contract and regulatory cycles. This was mainly in the transportation business, where revenues from Highways England declined due to lower capital spend on a number of contracts and due to the completion of our Area 4 contract.

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In Rail the prior year also included a rail grinding contract which is now complete. Revenue in the Utilities business were flat, where lower volumes from overhead lines in the Power business were largely offset by growth in Gas and Water as AMP 6 contract mobilised. Importantly profits improved over the prior year, which as we explained at the time were unusually low for a number of reasons. Profits in the first half were £11m, which represents a 2% margin, profits are normally half two weighted in this business, so we would expect the full year margin to be closer to 3%.

Now moving to Infrastructure Investments, the Investment business generated another strong performance in the first half, with profit from operations of £70m, pre-disposal profits grew by £4m to £18m, within this, profits from the UK were lower than the prior year at £9m, due to disposals we've made over the last 18 months. This was partially offset by profits in North America being slightly higher and lower bidding costs. Bidding costs in the first half included the benefit from some excess bid cost recoveries, this won't repeat in the second half, so bidding costs will go up in H2.

Disposal gains were £52m, as we made ten disposals during the year, this largely completes our disposal programme for the year, we are considering making one or two further disposals in the second half, but the gains would be small compared to the first half. At the same time we invested £45m into the front end of our portfolio, which will be covered on the Directors' valuation.

Finally, including interest income which makes up a sizeable part of the overall investment income the pre-tax profits were £85m.

We'll now look at the new projects and the disposals in the period. This has been another successful half for the business as we have won new projects and made a number of disposals. This slide looks at the number of projects that are included in the Investment portfolio, it reconciles the 73 projects included at the start of the year to the 68 projects at the end of the half, the difference being the net of the three new projects won in the year, less the eight complete project disposals made in the period.

If we look first at the new project wins you'll see that we're continuing to win new projects as we actively invest into the front end of the business. These are the projects that will generate the future growth in the Investment portfolio. There were three new wins in the first half which we will invest equity in. In the UK we invested into a new private rental housing project, with the purchase of a site at Manchester New Cross. Construction is due to start in the second half.

In North America we reached preferred bidder and financial close on a datacentre project in Borden in Canada and secondly we continue to expand in the private rental housing market with the acquisition of a stake in a portfolio in Alabama.

There were also eight complete disposals in the first half, firstly we sold the student accommodation project in Australia. This was our only asset in Australia. So this was the case of focusing and simplifying the business going forward.

At the bottom, the big cluster of red pins represents that disposal of the portfolio of seven BSF schools.

Now moving to the Directors' valuation of the portfolio. The Directors' valuation at £1.25bn is flat compared to the end of 2015. During the first half we received net cash of £80m from the portfolio; we invested £45m into new projects, but received £43m in distributions and £82m in disposal proceeds. The disposal proceeds figure doesn't include the disposal of the BSF portfolio, as the £73m of cash proceeds had not been received.

In addition to the eight disposals there were two other transactions which aren't included on the previous pin slide. First a partial disposal of the M1 / A1 project, where we still retain a 20% interest and secondly was also sold our interest in Balfour Beatty Infrastructure Partners and the associated fund. This was a strategic disposal of a secondary fund, run at arm's length to Balfour Beatty, we didn't have control, but we were committed to make future investments, and therefore we felt a better use of our capital was to sell that asset.

Looking further down the bigger numbers at the bottom, firstly the unwind of the discount on NPV which is always positive, increased the Directors' valuation by £47m. There was a small reduction due to operational performance movements, whilst assumed lifecycle costs are lower. This was offset by lower inflation and interest income assumptions and an increase in assumed tax burden for potential buyers are BEPS 4 becomes more evident in the market.

Finally, we obviously had and FX benefit on the value of our North American assets, which amounted to £54m. Overall a very strong performance, with no material change in value, despite the disposals completed in the period.

Now to look at the non-underlying items in the year - non-underlying items from continuing operations contributed a loss before tax of £28m. At the top you'll see a small trading loss of £3m in the period. There is £4m relating to the legacy engineering services contracts and actually a £1m profit from the Rail Germany business.

Net restructuring and reorganisation costs were £9m, with the Build to Last transformation costs relating primarily to staff redundancies.

Finally at the bottom within Other you'll see a £25m charge relating to revised legal guidelines and settlements, new sentencing guidelines for health and safety breaches were introduced on the first of January with more punitive fines being levied, as a result we've reassessed our potential liabilities on historic health and safety breaches and that is where we have recorded it.

Now we'll look at the strong cash flow performance in more detail. If you look at the left hand side you'll see that we saw an £80m total cash outflow in the first half. This is the difference between our opening net cash position of £163m and the net cash position of £115m. Total operating cash outflow before pension deficit payments and working capital movements was £71m, relating to the losses generated by the Construction business.

On the next line you will see a working capital inflow of £1m; this is exploding into more detail on the top right hand side. The key point to highlight is that each of the individual balances that make up our working capital have all been far more stable then the prior year, when we had very big swings. Included within working capital was a £50m cash outflow relating to historical projects. We've worked hard to offset the cash outflow to deliver a neutral working capital performance in the period.

So in summary a good performance in the first half. To give you more detail the appendix has a detailed breakdown of our debtor and creditor days, these have increased slightly from year end - but we're still well below the average over the last few years.

Now moving back to the left hand side again Infrastructure Investments as I said previously realised £82m disposal proceeds. It's worth noting there again that it doesn't include the £73m of BSF schools which is due in the second half. Offsetting this is the £45m we invested in the front end for the future growth of the portfolio.

Finally, we made a £29m pension deficit payment in the first half. These movements when added together explain the £48m cash outflow in the first half.

In March I said we would see £100m to £120m cash outflow in 2016, my view still holds on these project losses and so you should expect a £50m to £70m cash outflow in the second half.

I will now turn to my final slide showing the Group balance sheet. As you can see the Group balance sheet has been relatively stable in the first half, with equity holders' funds of £830m at the half year. Most of these items, such as cash and working capital have been covered in previous slides. It's worth remembering we hold the Investment assets on our balance sheet at book value, rather than the Directors' value I talked of earlier.

I think the one item to really highlight on this slide is the net retirement benefit liabilities of £96m, which is £50m lower than the year end. This is the result of our principal scheme, the Balfour Beatty pension fund, with over £3bn of assets moving into a surplus and on IAS 19 basis.

However the most important development is the progress we've made on the triennial review of the Balfour Beatty pension fund, in conjunction with the trustees. The result of the review governs that cash deficit payments that we agreed to make over future years. The formal valuation and funding plan are not yet to be completed but are sufficiently progressed that we've been able to agree with the trustees the key commercial principles of the journey plan for the fund to reach self-sufficiency during 2027.

Under the new plan Balfour Beatty will make cash contributions totalling £182m over the next eight years, under the previous agreement cash contributions totalled £376m over the same period. This is a very positive development for the fund, but also for the Group with greatly reduced future payments.

In conclusion, we continue to maintain a strong balance sheet, underpinned with net cash and an investment portfolio of £1.25bn.

I'll now hand you back to Leo.

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Build to Last

Leo Quinn, Chief Executive Officer
Thank you Phil. I'll now give you an update in terms of the progress in terms of Build to Last and the 90% of the iceberg that's actually under that water.

Let me just remind everybody that Build to Last was really fashioned around the fact that Balfour has been a company around for a hundred years and our job is to create a foundation on which it will survive for the next 100 years. So it's not about a quick fix. And the things we're putting in place are for permanency.

We announced our 24 month self-help plan, which fundamentally is we are going to restore the company to strength, using our own assets and our own capabilities. So effectively over the last 18 months we've been generating cash from different parts of the portfolio and actually using that cash to fund the cash outflows. And we're 18 months into that plan; we've got another six months to run. And it's interesting we will need all 24 of those months to make sure we're comfortable that we have the set stage for 2017 and 2018.

Again, the main premise of the programme was simplifying the business, upgrading leadership, improving governance and control and then changing the culture for the long term. Our four planks that we did this around was Lean, Expert, Trusted and Safe.

We defined Lean as 200 cash in - million cash in and 100 million cost out. And what you can see from this graph is the two main drivers around this is effectively good discipline around our internal working capital and also a terrific performance in respect of our Investment portfolio in terms of flawlessly executing a number of transactions.

If you actually look at the graph you can see the 2014 cash outflow, which is a typical cycle, it flows out in the first quarter, it comes back for the half year and then flows out again. 2014 does not include the benefits of the Parsons Brinkerhoff sale. But you can see the progress that was made in 2015 and you can see that we're holding that progress in 2016.

As we look to the second half, we will look to see that dampening late on in the half and as you go into next year, '17 and '18 you should see that oscillation become much, much tighter. And that says that you've really got true correlation between profit and cash. And I think that's the way you should judge the performance of all construction businesses.

In terms of the actions that we've actually taken, obviously the losses are reduced, which reduces the amount of cash outflow, strong working capital discipline, but also very good internal leverage of our assets and our capability. And I'll give you a very simple example of that.

Internally we have our own plant and equipment department, we also have engineering centres in India and places like that. Ironically the customer practice in the past was that if I can go outside and buy it a penny cheaper I'd go out and buy it rather than utilise my own assets. And quite often we have a situation where we're hiring in someone else's assets and our assets are sitting there not being used. You know you don't need to be a chief executive to work out that that's completely bonkers.

If I look at the revenue in our plant and equipment business, I think last year it was about £140m, this year as a direct result of actually looking to hire internally and use our own assets it's gone up by about £40m. That keeps the cash in the company and also keeps the profit in the company. So we're getting far more sensible about the things that we're doing.

In terms of our Investment portfolio I have to give real credit to the fact that if you can handle ten divestments and three investments and still run a strong pipeline of assets out over the next two to three years that's world class and actually not falter on it. So this is an in house capability which is I think almost as good as I've seen anywhere, even in many banks. We generated £82m of cash and £45m of cash invested. We also sold the asset which was one of our schools for the future and the cash associated with that, some £70m odd will actually come in in the second half of the year. So a stellar performance around cash and actually managing our cash position within the company, not going outside and looking to actually raise extra cash.

In terms of our £100m cost out and the other half of our Lean equation. I said to you earlier in the first part of the presentation, the single most important decision we made was to move away from 14 federated businesses to effectively businesses which were focused on the priority of selling and delivering. And then everything else would be delivered from the back office. Now that's moving forward in leaps and bounds and some very good results from that.

That same process that we've rolled out in the UK has delivered quite a lot of the £88m of savings and it now being rolled into the US. So in the US what we've done is we've consolidated around a single leader for our US operations. We've effectively upgraded management in that process. We've also in the same period of time as we simplify the company, we've actually moved to divest assets, which really aren't core to us and they've become too much of a distraction.

Handling a single asset in Australia, we decided to make that divestment. Again, that was sold at a very, very good return. The BBIP, which is the investment portfolio; being arm’s length and not under our control was something that we shouldn’t have. We became the owner or partial owner in the Wightlink Ferry to the Isle of Wight. Not sure what that’s got to do with construction, but it’s no longer part of that portfolio. This simplification has seen just under 1,000 headcount removed from our back office and overhead positions. All of that drives this £88m of benefit.

If I look at our IT organisation, we have got, what I think, is a first class responsive IT organisation and its adding real value into the business in many, many ways. In the first instance 2014, our IT cash cost was £108m. In 2017, it will be less than half that amount. And the fact is there was very little benefit being derived from that then. Today, it’s an integral part of our whole strategy in terms of how we take costs out of the business.

We are rationalising our platforms. 18 months ago, we had three versions of Coins, a couple of versions of 11i Oracle. We have 400 general ledgers in our Construction and Engineering Services businesses. Today, we have got one platform of Coins, we have got one platform of Oracle 11i and all of the Construction businesses and Engineering Construction and Engineering Services now just moved on to the R12 platform. So we have now got the means to actually scale and take the benefits from those investments across all of those businesses, which will give us better control and better transparency.

Other things happening in this area, we have gone I think it's from 35 email systems down to one. If you can just imagine what that actually means. In terms of the payroll, our payroll accuracy has gone from 95% to 99%. We have gone from 30 odd payrolls down to 13. By the end of next year, we will be down to five.

Again, all of this is around how we are using enabling tools to simplify the organisation, take out costs and make us more competitive.

Another thing that we have rolled out under the Lean and cost out is our new mobilisation hub. This was launched a few months ago. We now have 30 projects in the process of being launched. And fundamentally, we almost set up and tear down the job every day in the company. This is mobilisation by the way, in the UK. And if you think about that, the amount of material that gets moved and effectively wasted or thrown away, whereas today, with new mobilisation hub, we are able to reuse that.

The benefits here are quite staggering in terms of it means that we can set up on a lower cost. It means that we can actually accelerate schedule. One recent job, I won't name the customer, but the cost of setting up the IT for the infrastructure was half a million pounds. This group by using and enabling the equipment from a previous job was able to set it up for a quarter of a million. That was an immediate quarter of a million saving to the bottom line.

All of this is good common sense. It just requires that we need to take action and get it done. So I am very encouraged not only in what we are doing here, but also the plans we got moving forward. And in the area of mobilisation, we are looking at time and attendance and we are looking at what that means in terms of our people attending the job, but more importantly, contractors attending the job and their timesheets will be struck from our time and attendance not the receipts they give us. So a lot of stuff going on here and a lot of future benefits to be derived.

In terms of the Expert, let's just remember why we have a category called Expert. We are working in a hot market at the moment, there is great competition for resources and our job is to be a world class employer and a company where people want to work. So effectively, Expert is really important as part of our Build to Last programme. We want to keep and retain the best talent.

Very interesting from my point of view is people join companies and they leave managers. So, what we have to do, we have to make sure that we are unrelenting in terms of the quality of our top management, and those need to be real leaders. So, we are continually upgrading our leadership across the company. Not only have we upgraded a level that reports to me, but down below, we are also doing the same.

In the area of finance over the course of the last 12 months we have upgraded 60% of the finance leaders in the organisation. And again, truly actually going down through the organisational all levels looking to improve the quality that we have.

We are maintaining our commitment to what I call the 5% club, which is 5% of our employees will be made up of apprentices and graduates on formal training schemes. Why are we doing this? I mean, fundamentally, we are in a growth industry if you take a long-term view. Infrastructure is going to be very important and we have got to make sure we have got the people to do the jobs. Today, we don't have enough people in the industry to deliver those jobs. So, we are actually making this investment and we get some really good quality people and it reenergises the company.

In terms of training and development, the kinds of things that attract people and make them want to stay, we are doing world class work in the area of project management in terms of the APM programme, and grading all of our project managers. Over 90 people have been trained through that programme to date.

I am still fascinated when I look across the company at the number of people that don't know all the things that Balfour Beatty do, even though they have been working for Balfour Beatty for their lifetime. And we have actually been creating these cohorts around project management, commercial, and engineering where we are actually sharing the capability and starting again to use more of this internal capability than we have in the past.

We have seen actually the orders internally going through our engineering animation and BIM design hub almost quadrupling in the period.

Customers are also engaging with us and we have had our first hackathon with London Underground and the track partnership where our engineers get together with their engineers and over webcast are looking at problem solving and how to do things more efficiently, a real way of engaging with the customer and underpinning future sales.

In terms of retaining people, we've put career laddersin place especially with our engineering community, because they are the most important people in the company in terms of how we have competitive advantage. We have improved our utilisation of people by moving them between jobs.

My contribution is still contributing in terms of empowering people to take initiative and get stuff done. And of course, we have been upgrading all of our facilities and that programme is actually continuing when we are looking to take lots of our regional offices and consolidate them into one.

In terms of Trusted, what do we mean by Trusted? I think we were coming from a point where we weren't able to forecast the business. We were constantly surprising people. We were delivering with great regularity profit warnings. And the idea is we need to get to the point where we do what we say we will do and people can rely on our forecast and our commitments.

During the period, 81% of the contracts that were described as distressed were effectively completed. It is interesting when you look at those there was a wide range of outcomes across those projects. Some of them actually completed very favourably to where we thought they would be, others were very unfavourable. There were real challenges of getting some of the jobs completed and signed off by the customers. So, it does actually say there is a real black art here in terms of how do you get these things closed and completed. And it's not always as straightforward as you think and the outcome is not always as you would forecast it to be.

The gated lifecycle process is embedded across the organisation and we are having great results from that. We are controlling margins. We are looking at cash flow. We are particularly looking at risk. We are looking much more at two-stage bidding, where we agree our margin and the cash flow upfront. And then we agree the cost and the scope as we go through with it the customer and what can be afforded. And we have had some successes in bringing those types of projects in and we are working on some major projects in that area at the moment.

New processes and systems landscape is delivering real benefits. I talked about the IT, but particularly our data analytics on top of our IT platforms, how we are actually able to be invasively going into job performance.

Historically, I told you last time that if I wanted to see a cost to complete, I would have to ask an MD who would then ask a project manager, who would then ask his financial controller. Today, single point, one request of an individual and we go in and we pull the data automatically. That environment is a complete change from where the company has been historically.

So, that gets us on the path I think ultimately to being world class in this area. I do add the fact to get the real benefit out of these IT systems will take us a few years. But the way I think about it is I should be getting 50 basis point improvement year-on-year around the benefits that come from actually having that structure in place. So, we have got to be able to use it.

Continuing customer confidence, the way I measure this is the fact that we are getting landmark projects placed with us. You heard yesterday about the launch or the winning of the Caltrain from San Francisco to San Jose. That is a major milestone for us. It's $600mand the reason we won it was we took the delivery team from the Denver Light Railway project, which was in the billions and the successful delivery of that project was then moved to California. It's the same team. It's the same leadership. It's the third time they will have delivered a project. So, this is actually - and at what they do, they are world class. And so really important that we continue to leverage and make our solutions as repeatable as possible with our customers.

We won the baggage handling at Heathrow, £170m. The Lorry Park was a major vote of confidence from Highway England. RF Mayham was an £80m Air Force Base, where the new headquarters of the F35 will be. Our job is to make sure we are there for the next 30 years helping that customer, because they need the things that Balfour Beatty deliver.

In terms of the strength of the company, in terms of Trusted, it's probably the strongest balance sheet in the sector, with £1.25m of investment assets and £115m of net cash on the balance sheet. So, we are in good shape.

Safety, I have talked about our licence to operate. This is absolutely imperative in terms of our long-term success as a company. It's not about safety for Balfour Beatty. It's about safety for everybody who is on our site, so our subcontractors, their subcontractors, members of the public. It has to be our number one priority.

It's very interesting if you go on to a job and you look at it and it ends up that it doesn't look safe, it's a job that doesn't finish on time and it's a job that loses money. This is the single most important indicator in terms of how we are driving a great company and a great business.

So for us, what we are doing is we are actively engaging with all of our employees around safety. Everybody knows it's the number one priority. You can see from this graph how observations have actually led to reductions in the LTIR, which is the lost time injury rate. We are down at 0.21 year-over-year that's an improvement. We are getting that improvement by actually engaging hearts and minds. And what we want is learn safety to start with and then we want intuitive safety.

We have got to be careful as well that we are going to keep it very open environment. Accidents do happen; you learn from accidents, they are a good thing. You don't want too many of them, but you can't create a culture where these things go underground. So, we have got to be very balanced about it. You know about our zero harm programme.

We have launched making safety personal in terms of what does it mean to me and my family and why do I need to go home safe and you deserve to go home safe. We are looking at not only accidents and slips, trips and falls, we are looking at the health in construction in terms of respiratory diseases, we are looking at diet, all of those things which actually lead to more deaths than actually on construction sites themselves. So, important that we get the forward leading indicators around health and safety into our vocabulary.

And then finally the new sentencing guidelines around health and safety, they have become quite penal. The fines have probably gone up tenfold. And again, accidents shouldn't happen, but when they do, they are going to be very, very costly. So, safety is a great leading indicator of the

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performance of a great company. So therefore, that's why we said it has to be and continues to be our number one priority.

If I talk about the markets for a few seconds in the last couple of slides, I will come on to the UK on the next slide, but let's just touch on the US. US - two parts for us, there is infrastructure and there is buildings. I think last time I stood up, infrastructure have got a $300bn budget over the next five years. That's going to be roads, railway, water. We are positioned in all of those markets very, very strongly and our geographical presence is really the Southern Smile, down through the Carolinas, around through Texas all the way up into California. We don't really go outside of those states. We don't really go outside of those areas of expertise.

So, strong focused strategy. Ray Bond who leads that business is now leading all of the US business and we are bringing the same strength of leadership and character to our Construction business.

On the Construction side, we have been growing at about - the market is growing about 2% to 3%. I see that sort of staying at that low growth level going forward in the future. We have got about a $4bn business in that area.

Again, if I look back at our period of forced growth, we diversified into areas of multifamily housing, stick frame, which is about as low - or is low end as you could be in construction. Back in 2013, I think we had $1bn worth of business in that area. We will look to actually, and we have been by the way for the last 15 months, moving out of that particular segment of the market and we won't be actually playing there in the future, because there is no real value to add there. So the construction market on buildings, reasonable, flat growth. In the areas of infrastructure, strong growth.

If I move into international, I will touch on Hong Kong for a couple of minutes. The buildings market in Hong Kong is growing well at the moment. It will continue to exhibit low growth. Becoming more competitive, interesting enough what's happening is Macau - is effectively and all the casinos have shutdown, all the labour is moving out of Macau back into Hong Kong, creating more competition. In the short-term, it means that labour will get cheaper. But prices will come down. So I see that as a competitive market.

In the civils area, we were hoping for growth in the second half of 2016. The third runway of the airport looks as it will slip into '17. So civils low at the moment and it will start to pick up in '17 and '18 as a market.

Middle East, a lot of growth in the Middle East, you can almost pick your job. The problem is we have not demonstrated that when we do grow in that area that we can actually control it and we can turn that growth into profit. So we are constraining our growth in that area. It's contractually very difficult, very, very challenging. Cash flows are invariably in the second portion of the job negative. So in effect, seeing our business shrink in that area, will not be a bad thing for us, and we won't be as exposed to some of the difficult commercial terms and practices initiated in that region.

If I move into Support Services, the two areas of growth for us in the future will be Rail and Power. In both areas over the last 18 months, we have effectively contracted in those businesses, because we were pursuing revenue with two very challenging customers who are very challenged in their own markets, the regulatory market of rail and power. And we are at the right size at the moment.

I think as I look forward, I can see growth in those indigenous businesses for us, but in power, I see a lot of growth in the connectors whether the ElecLink, which is bringing power through the Channel Tunnel or some of other connections that we have made, as you can see from that graph. So Power has got quite a strong outlook, but it will be a slightly different market, a bit more risk, higher margins than the traditional business.

Rail, we are probably the most qualified in electrification and provided we can strike the right commercial contracts where we can make the return, we will actually return to growth. But if we can't, then we will stay the size we are today.

In terms of Investments, again, we have a very diversified portfolio, both in terms of the US and the UK. Strong performance, lots of opportunities out there. Our challenge is actually being selective and ensuring that the pot of cash we have allocated to that area is spent, so we get the best returns, so no real ceiling on the amount of investment that we can actually invest in at this time, very strong pipeline of projects.

A couple of recent successes, we just get planning permission on the Sussex University and there was another one that we recently got planning permission on.

Finally, if I go to the UK, I will just touch on this. We recently released a report from Balfour Beatty on Infrastructure 2050. And the key point of this report is that for infrastructure, we do need to have some certainty about demand. At the moment, we are all aware of new nuclear, High Speed 2, Highways England and our motorway infrastructure, flood defences and the list goes on. What we don't really have is signed orders at this time.

I understand that we have got a new government and the fact of the matter is they should be given time to make their decisions. But we do need government to step up and say what the strategy is and then we can as an industry respond accordingly. I think the uncertainty will start to move away towards the end of the year when some decisions are made.

It is important that we don't really go beyond the end of the year because we can't really take a capability holiday. We can't sort of power up and power down. When we take on people and train them, we train them for a lifetime. If you have to then downsize, those people don't normally return to the industry. So it's really important that we get decisions so that we will get continuity.

It's also critically important that government's decision to proceed with infrastructure to me is a bit of a no-brainer because money is free at the moment and if you think about the decisions made today, those are projects that will benefit the next generation and effectively for the next 50 years to 100 years. So it's important that we actually move ahead at this moment in time.

The other statistic in the report is very interesting. The funding of infrastructure is normally about 19% government and 60-odd percent or 69% private. Unless government primes the pump, the private sector won't come behind it with its funds and its investment. So I think a lot of the UK prospects now hang on the government's decision over the next six months. And this is an area to look out for.

We are a late cycle industry, so in the short-term we are not being impacted. We have got a lot of work to do. We have got a lot to deliver. But if it goes much beyond the end of the year, I think we will then have to start considering how do we manage our portfolio and how do we mitigate our risk in terms of the resources and capabilities that we carry. So we are all relying on the British government to step up and sign the first cheques.

And then in terms of outlook, I will just emphasise this again. 24 months self-help plan, 2015, 2016 was about laying a foundation for future managed growth. I think we are doing that. I think we are doing it very, very effectively. For 2017, '18, we see a very clear path which is underpinned by our decision around the dividend to achieve industry standard margins. And as I go forward to 2019 and beyond, we are the largest player in the UK market. We have a diversified portfolio. We now have strength and leadership. I believe that we should be commanding a premium to the standard industry margins and therefore, market leading strength should be matched by market leading performance.

So on that note, I will hand over to you for questions.

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Questions and Answers

Joe Brent, Liberum
Good morning. Just one big question if I may around UK Construction margins, could you tell us if you still believe 2% to 3% is achievable in 2018? And if you are willing, it would be great for you to walk us through how you see tender margins evolving, but also the overhead recovery into sales, i.e. the composition of that net margin and also a little bit more detail around the tail and when that tail really disappears?

Leo Quinn, Chief Executive Officer
Sure. I still remain confident in terms of the margins for UK Construction. We are seeing the margins continue to improve over what was a very poor baseline in 2014, not only in the UK, we are seeing margins tick up, although lower in aggregate in the US as well. So I think the discipline of actually raising the bar is actually working.

Obviously, if you deliver those margins on a lower overhead, you know if the £100m comes out and whatever we decide to include in Phase 2, you are going to see that benefit come through at the bottom line. So I think 2% to 3% is a very achievable number. And I think that should be our minimum expectations.

Joe Brent, Liberum
Could you say something about tail or the expected overhead recovery rates?

Leo Quinn, Chief Executive Officer
The - in terms of the tail, we are clear that by the end of 2016, we will be 90% complete, which I think leaves us a sort of a handful of projects outstanding, which will run over the next couple of years. Those are just long-term projects. And I think they feature more in our field of competency than the smaller projects that have lost most of the money, excuse me. And when you say overheads and you were saying -?

Joe Brent, Liberum
I am really trying to understand say the 3% margin, is that a 9% contract margin and that was 6% overhead recovery, is that the sort of number?

Leo Quinn, Chief Executive Officer
So in terms of our overhead recovery, we are looking at a range of 4% to 5% depending on a particular region. That's where we are looking to set our overhead rates out.

Joe Brent, Liberum
Thank you.

Gregor Kuglitsch, UBS

Thanks. Can I go to one of the slides in the appendix, which is the working capital to sales, which I believe stands in Construction was something like 18% at the end of June, can you give us the sense on sort of new business that you are winning, I think this is Slide 32. What kind of payment terms you are getting, so that we can sort of get a sense where the working capital will normalise out as all the legacy stuff washes out maybe sort of in 2 years time, when things normalised, do you expect it to be similar to 18 or is it in fact 10% just to give a sense there? First question.

Second question is on the portfolio of business, so, you have exited a couple of things which are clearly non-core, Australia, the infrastructure fund. I guess from a geographic perspective, there is still Hong Kong, Middle East, things like that which I guess seem quite distant and quite small in the grand scheme of things of the Group. So, can you give us an update why we should perhaps expect or whether we should be expecting some kind of change on the portfolio going forward perhaps in the spirit of simplification?

And then a small question on cash, can you give us a sense where you think average net cash will normalise in the second half after obviously some timing issues on disposals yet on the flipside, are you seeing some back cash outflows on the legacy, so just maybe some guidance on average cash in the second half, please? Thank you.

. . . .

Leo Quinn, Chief Executive Officer
Let me start with the first one. It was really a question around the 18% working capital. 18% is sort of like a historical high, so you might see a little of that turn off. But let's talk about our approach of philosophy. First and foremost, the model around Construction basically says that it is a low margin business, which does take on very high risk at negative working capital, favourable working capital. And it's not rocket science to understand that you are running your company on customer's money. So, working capital should always be negative. It's - if we want to start investing in building projects, then we should have it in the different division like our Investment division. So, getting that discipline in the company is really important.

Every single project that goes through our gated lifecycle process comes with a cash flow. And that cash flow has looked to be positive all the way through the project. So, in terms of the 18% working capital, it's there or thereabouts, it's the right sort of level. There maybe some legislative changes that cause it to move one way or the other. But I would say at this moment in time for the next 12 months, that's the kind of levels we should be targeting and we should look to achieve. It could drop off depending on legislative changes. But again, our job is to make sure that we keep it as high as possible.

The business model in Construction historically used to make more of its money from the advanced working capital payments on deposit in the bank getting a return. Unfortunately, bank deposit returns are pretty low these days. So, that source of profit has gone.

The second one, core and non-core, I think it was around things like Hong Kong. They are all different fairly enough Hong Kong actually is - we're almost like a true 50% shareholder in Hong Kong. It has its own bonding, its own letters of credit. It all runs within its own domain. It doesn't sort of effectively exhaust the capacity of our balance sheet or anything like that. So, it's an asset that it performs well.

We haven't really looked at what our strategic considerations around what are the right assets to hold while we are going through Build to Last because the biggest return to the shareholder is about getting the core business and the Construction business right.

In terms of the Middle East, Middle East is slightly different. It does leverage on our balance sheet and our goodwill. In terms of bonding, letters of credit and the likes of that and that's not really a desired position. We would expect most businesses to run off their own balance sheets. So over time, we would like to sort of cauterise that balance sheet away from our own in terms of bonding lines. In terms of the cash, average net cash, I will give that to Phil. You want to take that one?

Phil Harrison, Finance Director
If you look at that full year I am thinking average net debt - average net debt between £90m and £100m and we did average net debt in the first half of £68m. So, it does get slightly worse in the second half, but if you remember, I did talk about cash outflows in the second half because of the project losses coming in.

Just one further point on your first question around the percent of revenue on working capital, in '15 and '16, we do have some losses embedded in that working cap figure. So, I would think more lower range than the 18% when you are modelling forward, so you need to come back down probably more into the 13%, 15% range.

Leo Quinn, Chief Executive Officer
It is close to 18%.

Gregor Kuglitsch, UBS
Kind of one follow-up on the US, I think you mentioned in your final statement that you are trying to exit $1bn of revenue. Did I understand it correctly?

Leo Quinn, Chief Executive Officer
Most of that's been - I didn't - no it wasn't that - I didn't mean that. Most of that has been worked out through the portfolio and concluded. There is a tail on that business, but we made the decision around multifamily housing a year ago that it wasn't the right business for us in the portfolio. And we have been - so as those jobs are finished, we have been winding those down and not taking on new jobs.

Gregor Kuglitsch, UBS
Margin expectations and so on for the US haven't changed from …

Leo Quinn, Chief Executive Officer
We haven't changed anything on that in the models.

Stephen Rawlinson, Whitman Howard
I have got the mic now. Hi, I'm just looking - you mentioned the net debt in the first half, the average net debt and I was puzzled a little bit as to why you got actually 2% - £2m interest again there. And I looked across that you got an FX gain of about £12m. So, could you just talk us through what you think on the interest cut charge will be for the full year? It's not a material - it's not big material amount, but in the context of the profits you are reporting, it is material.

And secondly, with regard to sort of geographic order book and pipeline, if I look at the order book slide in the appendix, there seems to be quite a lot in the next 12, 18 months in the US is that a sort of

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deliberate policy in terms of where you wish to operate or just the way, lot on contract wins and does it have implications for bonding?

And finally, just on the PPP PFI portfolio, again it's an issue of where you are going in the future and where you see the pipeline, you have talked a little bit about what's coming up. But could you just do in a bit more depth on that, because obviously, it's an important element to the value of the business?

Leo Quinn, Chief Executive Officer
Right, you want to do the number one? You do number one

Phil Harrison, Finance Director
So in the first half, we did get a benefit from cash balance, US cash dollar balances that we were holding around about £12m. And we do not see that repeating in the second half clearly because we don't know where currencies are going to move. And therefore, you should really look at on a go forward basis a similar outlook to what we had in the second half of '15 when modelling.

Stephen Rawlinson, Whitman Howard
The order book and the pipeline business?

Leo Quinn, Chief Executive Officer
Yes. In terms of the awarded, but not booked, we have got a very strong pipeline both in the UK and the US. What we are seeing in that pipeline on the US is obviously Caltrain is in there, which is now booked, but we also …

Phil Harrison
It's the second - it's not in first half order book, it's second half order book.

Leo Quinn, Chief Executive Officer
We have also got - we are shortlisted on three other major infrastructure projects in the US and so a very, very strong pipeline and also we have got a strong pipeline in the building business as well. In terms of the UK awarded but not booked, also we have got the One Nine Elms, which is a 2-stage bid that's well over half a billion pounds. We are actually working onsite there doing the piling. So, we sort of know the job and we understand what we are getting into there.

We are also in that job - just a matter of note that the team that successfully delivered the Olympics stadium will be moving over to One Nine Elms and we are in the process of putting that together now. So, I think that answers the question - it's strong on both sides of the Atlantic for us. And then on the PPP and the PFI, your question was really around the selectivity of our investment or -?

Stephen Rawlinson, Whitman Howard
It is more to do with the fact that obviously it's an important element of value, but obviously PF2 has really gone nowhere in the UK and therefore that has implications both to what you are able to pick up

in the UK and geographically how the spread might alter over the next two to three years, what we might expect to come up?

Leo Quinn, Chief Executive Officer
I think if I look at it, you might see a little bit more cash going into the US, but the portfolio is pretty well balanced at this moment in time in terms of both sides of the Atlantic. We have a strong pipeline both in the UK and the US and it enables us really to be selective and you know we are only going to take those things that actually are core to our criteria and give us the right sort of returns.

As I said in my presentation on the UK, we have just been successful. Sussex University, student accommodation has just received planning permission. The Manchester private rental sector project has just received its planning permission. So, there is quite a lot of opportunity at this moment in time and it is about being selective.

Stephen Rawlinson, Whitman Howard
And just very final, I did mentioned before the implications of bonding if you are expanding at the rate you have described in the US, is there something we should be looking for there or is that not a material item?

Leo Quinn, Chief Executive Officer
We have capacity in the US.

Howard Seymour, Numis
I have got a couple as well, if I may. Can I just remain on the US, you alluded to changes in that business, thought process really - one is that included in the original programme that you mentioned on Build to Last. And two - when you would you expect to get the cost benefits out of that effectively as you said sort of more back office, procurement, etc?

Leo Quinn, Chief Executive Officer
Yes. First and foremost, Build to Last was a programme that we launched globally. The biggest beneficiaries were of course the UK, because that's where affectively there was the most disorganisational disruption. And we have systematically gone through and proved that out to be very successful.

On the back of having broken the back on that, we then moved into the US. The upgrading of the leadership in terms of putting Ray in charge is very material, because it will bring a much stronger discipline to the delivery capability over there. It was always part of the original plan. It was just about phasing and timing.

The benefits, obviously the back office is a lot smaller so we are not sitting and looking anything like the scale of the benefits that we have done to-date, plus the fact we took $30m out of the US buildings business last year. So a lot of those benefits have been grabbed. This is more now really around better execution, better control, better standardisation of systems. Therefore, we have got one language that we effectively can run that the $5bn of revenue through. But in general, it's a reasonably well managed business to start with. And we are looking to get it through to be even better managed going forward.

Howard Seymour, Numis
Okay. Second question is on the Rail business and you alluded to the fact that it could grow from here if the client is prepared to, but it's clearly a business that requires a lot of specialism, key people - how quickly feasibly can you grow that business if they do turnaround and stop doing what you would want to do in the contracts there?

Leo Quinn, Chief Executive Officer
Yes. Look, I think first thing I would make - the first point I will make about Rail is that we have that expertise and capability in depth. I think we are the only UK contractor to successfully deliver the electrification of the Northwest line. But we can't work in an environment where we are not able to determine accurately the returns that we will make and the cash flow. And it's really a question of that we will only enter into what is sensible contracting arrangements. And I think if we can do that, I think we can deliver a very successful job and we also have the resources to do it. So we are not without the capability.

Howard Seymour, Numis
Thank you. And the last one was just on you mentioned the document, the infrastructure document, probably a slightly cheeky one, but how well has that gone down with government because it's quite a political lobbying tool and kind of successful one if I may say so?

Leo Quinn, Chief Executive Officer
Well, to be frank, it wasn't done with any purpose or with that in mind. It was really a pretty frank exposé into the fact that we - you know infrastructure and fiscal expansion will only happen through government. We have had a lot of projects on the table for a long time. Now I think in the light of Brexit and the uncertainty, we just need to give confidence that I suppose Britain is open for business, but more explicitly open for infrastructure.

I mean, it's really quite opportunistic if you think about interest rates being so low, you can almost build it for free. And we could be taking advantage of that because it does lay a platform for future economic growth over the next 50 years, good infrastructure, good roads and good railways. And I think Balfour, as well as all the other construction companies are tooled up and sort of resourced to actually deliver on these projects.

Jolyon Wellington, JP Morgan
Hi there, I've got a couple of questions on the UK turnaround and one on the Infrastructure assets. Just in terms of the UK, you said in the first half you take out the problematic contracts, the underlying business roughly broke even, just wondering what gives you confidence that, that's going to move up into the 2%, 3% range, is it a lower margin to start with that's going to blend through or is it an overhead reduction?

And then secondly, on the UK Construction business, if you think about the revenue base from 2015 revenue levels, what level of shrinkage do you think you will need to get to 2018, 2019 for the 2%, 3% margin range?

Leo Quinn, Chief Executive Officer

Right, okay. Look I think fundamentally, what gives me confidence about the UK margins is that we are bidding at higher margins and we have got a lower overhead. And sooner or later, if you just assume the worst assumption that revenue remains flat, then there are only two levers to pull, its margin and cost. If you got those two and you got a plan to deliver against those, you will get there. If you have a tweak up in revenue on the back of that, then you have got sort of an insurance policy.

As I look at the order book going forward or if I look at the opportunities going forward, I would say it's slightly on the growth side rather than the declining side. But then it does come back to the infrastructure question. For example, if Highways England doesn't place its £5bn of work over the next five years, that becomes questionable. If new nuclear doesn't place or we don't look at airports it all has an impact.

So I think these are moving tectonic plates at this moment in time. It could be very, very good on the growth side or it could be very tight. I think if it's tight, we have at least proven the ability to actually manage our overhead and our costs and get it down in line with the revenue. Your second one was around this '18, '19 and that was - ?

Jolyon Wellington, JP Morgan
Yes. Just well you've sort of answered it to be fair, I was just asking about the shrinkage of the 2015 revenues, will there be any shrinkage required to hit that 2% to 3% margin, but it seems like you said that maybe they actually grow?

Leo Quinn, Chief Executive Officer
So, the way we are running and planning the business is revenue is flat. What I am not going to do is allow growth to save us. If growth does come in, then it's a bonus.

Jolyon Wellington, JP Morgan
That's clear. And then the final question I have just on the Infrastructure portfolio and you touched on gilt yields being very low at the moment, interest rates coming down, how does that affect your thinking about that business and crucially the valuation of that business?

Leo Quinn, Chief Executive Officer
And that always gets quite an interesting discussion and I have got the expert in the room, so I've got to be careful I don't sort of say the wrong thing. Effectively, our class of asset has a fairly robust return and variably inflation linked. So we see those as remaining attractive and interestingly enough, even when interest rates go up as opposed to down, we don't necessarily see the valuation changing that much and probably got it totally wrong, but it sounds good.

Jolyon Wellington, JP Morgan
You are not expecting it to be sort of massively valued up when you have …?

Leo Quinn, Chief Executive Officer
No, because on the same basis that I am told that if these interest rates rise, it won't be massively valued down. I must reply the reverse argument mustn't I?

Jolyon Wellington, JP Morgan
Okay, very helpful thank you very much.

Leo Quinn, Chief Executive Officer
It's because of the type of class of asset that it is. If people want to pay a little bit more, we won't sort of say no.

Olivia Peters, Berenberg
Good morning. Sorry to go back to it, but just on Brexit, obviously you are pushing to the government to make some kind of decision on maybe a potential infrastructure programme, I was wondering if tendering on the commercial side, however, has dried up since that event, if you could give us an update on the outlook there?

Secondly, on the 89 legacy projects, you implied that there had been some additional costs and then sort of reaching a sort of handing over the keys as it were, could you qualify those?

And on the US, obviously there is cost savings coming through there, I just wanted to get a sense, I mean in the past, you have guided to sort of 1.5% margin as a normalised margin there, is that still where we are seeing things because of the nature of that market?

And then lastly, on the PPP portfolio, the discount rate unwind seems to be considerably lower this year compared to last year, is that basically due to you having less new projects coming in, i.e. You are not benefiting as much from the unwind of a discount rate as a risk premia is lifted through for the construction phase or is there another reason for that? Thank you.

Leo Quinn, Chief Executive Officer
Well, Phil can answer the last one. In terms of tendering on the commercial side, we are - Construction is a late cycle business. So a lot of that commercial office space and stuff, there is no doubt there has been a downturn in that people are backing off considerably. We on the projects that we are on, we are looking to finish those. We were reducing our exposure to those types of projects anyway. So they are not really top of our list.

And if I look at the pipeline, I am not seeing that we were saying we need to book A, B and C and that's now gone and that's about we might have the discussion about it. So clearly, our pipeline is not focused in that type of work in that area.

It would be wrong to say that smaller projects, which may have been going forward now won't be going forward. There will be some fallout from it, but in the scale of things, it's pretty immaterial to us.

The second one was on the 89 projects. What I said was 81% complete and that means financial close on them. The range of outcomes, were very wide. And I said certain projects actually concluded profitably, believe it or not, in the end analysis, whereas others ran on longer and they deviated further. You are looking at about 59 projects in that. So, it is probably, if you look at the financial results, a skewed distribution in the unfavourable category. So effectively, we overran on aggregate greater than we would have done. The good news is they are closed and they are behind us.

In terms of your other question about the US cost savings, I would think your 1% to 2% range around that business in terms of the building side is correct and your higher range around 3% plus for the Infrastructure would be where we would be targeting things.

I will update you more in the next presentation on that, because we are - we do have a unique capability by having the two businesses under one leadership. And I will save that for our next presentation. In terms of the easy question?

Phil Harrison, Finance Director
I think it might be, because we have confused you on the slide. That's a full year figure of 93. So, that might be our fault on that one, I am afraid.

The other thing just to go back on these 89, we have got two-thirds of financial completion. There is still a third that have to go from either continuing and practical completion to get through final completion. And remember it's only when we are through and got our final account that we can draw a line under these things. So, we have still got work to do in the second half to get these things further through.

Leo Quinn, Chief Executive Officer
Any more questions? Thank you very much for your time. I appreciate it. Thank you.

END

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