2012 full-year results presentation script
7 March 2013
Opening remarks
Ian Tyler, CEO

Title slide

First of all, welcome to our 2012 results presentation and thank you all for coming.

Unusually this morning, there are three of us presenting. As you know, I'm handing over the reins to Andrew in a few weeks' time. So, after a quick overview from me and a look in detail at the 2012 numbers from Duncan, Andrew is going to take you through a more detailed look at our markets, give you an update on our operational and strategic progress and share some thoughts about the future. The three of us will then take questions at the end.

Slide – Resilient underlying earnings performance

As you will have seen from our announcement this morning, 2012 has been a year of progress, but also a year of continuing challenges.

The headlines, and our view of the near term, are in keeping with the outlook we indicated in our Q3 IMS. The topline was pretty stable with the order book up 1% at £15.3bn, and revenue, 1% lower.

However, due mainly to margin pressure in construction, underlying profit was 7% lower than last year, although underlying EPS was down just 1%. We are proposing to keep the final dividend in line with last year, resulting in an overall dividend for the year of 14.1p - up 2% on 2011.

As anticipated, average net debt increased on last year reflecting the continuing cyclical unwind of working capital.

Slide – Segmental highlights

Looking at the detail, our businesses performed well in the year in most instances. In particular, Parsons Brinckerhoff, our professional services division, continued to grow while increasing margin towards our target range.

Our investments division has made important strides in moving from a pure PFI/PPP investor to a broadly based infrastructure investment and development business while successfully securing value from the disposal of mature assets.

Our Support Services businesses in utilities, highways and facilities management have continued to perform well, although the overall performance was marred by specific operational issues in Australia which we referred to at the half year. A 12% increase in the order book helped by the recent £1bn National Grid gas contract, underlines the potential for growth in this business in the medium term.

Even in US Construction, which has seen substantial market decline over the past three years, overall performance was stable for the year.

On the other hand, as we brought to your attention in the Q3 IMS in November, we saw the UK construction market deteriorate. The underlying cyclicality of our current construction activities, particularly in the UK, combined with the more structural changes in the various European rail markets mean that 2013 continues to be a difficult year.

Against this background, we have successfully followed through our cost reduction programme and we are on track to deliver the full anticipated savings. We have commenced the restructuring of our Mainland European rail business and we are applying our traditional rigorous processes to manage risk and margin quality across the construction sector. Duncan and Andrew will cover these areas in more detail in a few minutes.

Slide –Strategic highlights

From a strategic perspective, we have had a good year of execution. There are many specific examples including the continued development of our global power business and the successful first close on our infrastructure fund. But you can also see the overall impact of our initiatives coming through in the increasing proportion of our order book which reflects economic rather than social infrastructure. More importantly, we are progressively aligning our structure, our processes and our culture behind a strategy based on our target market sectors and geographies.

The strategic direction of the group, the robustness of our business model, as reflected by the continuing strength of our order book, and our programmes to drive efficiency, create a strong platform for the future.

Slide – Holding slide

As I mentioned just now, this is my last results presentation for Balfour Beatty and I'll be handing over to Andrew at the end of this month. This is both an exciting and a challenging time for the Group. Andrew and I have worked together for many years. For the last four of them he has been my Chief Operating Officer, and there is no one better to take the business forward.

It's been an absolute privilege to lead the Group over the past eight years and, both personally and on behalf of the Group, I'd like to take the opportunity to thank our analysts and investors for their support and friendship over that time. Thank you.

So, let's get on with the show. With his traditional jovial banter and repartee, Duncan will now take us through the details of 2012.

2012 full-year results presentation script
7 March 2013
Financial and operational review
Duncan Magrath, CFO

Title slide

Thank you Ian, and good morning everyone.

I will run through the business performance, initially running through the segments, starting with Professional Services.

Slide – Professional Services – FY 2012 by geography

The **left** hand side shows the order book and the **right** hand side shows revenue.

Overall order book and revenue performance have been very stable over the period.

Geographic trends of the last 12 to 18 months have largely continued, with steady performance in the US and growth in the rest of the world offsetting the revenue decline in the UK. UK orders were boosted by a share of the National Grid gas distribution contract.

Turning to profits and margin performance.

Slide – Professional Services

We achieved a very good margin performance of 5.9% in the year. This margin improvement has been achieved through good cost control, but also through the successful completion of some projects. These included some power projects in the US, and some favourable Alliance and at risk contracts in Australia and Asia.

Whilst the underlying margin continues to improve toward our medium-term target of 6% to 7%, our overall margin performance in 2013 is likely to be a little lower than 2012.

Now moving on to Construction Services.

Slide – Construction Services – FY 2012 by geography

This year this slide requires **some** interpretation to convey the underlying story. The order book figures suggest that for 2013 we should anticipate a strong decline in US revenue, and growth in the UK. Whilst a logical conclusion, this is **not** what we expect to happen.

Dealing with the US first, unexecuted orders are down 17% year on year or 13% at constant currency. As I noted back in August last year, our ABNC or awarded but not contracted position in the US has strengthened as the unexecuted position has

decreased. ABNC is now 30% higher than last year end and the aggregate of orders and ABNC is now $9.7bn, marginally ahead of a year ago. Therefore, as long as there is no delay in converting these into signed orders, and the work starts to be executed, I anticipate that revenue decline in the US will be small, if any, in 2013.

In the UK on the other hand, whilst the absolute level of unexecuted orders has increased by 1% from a year ago, the aggregate of orders plus ABNC is down 13% from a year ago, with ABNC down 23% and only a third of these projects in our major construction arm. I will come back to order book coverage in a moment.

UK revenue was down 6% for the year as a whole, although this comprised a 2% decline in the first half, and a 10% decline in the second half.

In the US, revenue growth was 8%, although this was entirely due to acquisitions.

Revenue in the Rest of the World was down 6% with reductions in Mainland European rail and Dubai not being fully offset by continuing growth in Hong Kong.

Returning to order book coverage.

Slide – Construction order book coverage

You can see that unexecuted orders for the US are about 1.2x last year's revenue, and unexecuted orders for the UK are about 0.9x last year's revenue.

Adding in ABNC and the figures swing even more in favour of the US, with the US at 2.3x last year's revenue versus 1.2x for the UK.

The UK therefore has a greater "win and do" element in 2013. In addition, echoing what we said in November last year, due to typical lead times the work that we can now win and execute for 2013 is in the regional market, where margin pressures are currently most fierce in the UK. We will only bid for work at margins that will give us a reasonable return, and consequently we continue to anticipate that a revenue fall in 2013 in UK construction of circa 20% is a likely scenario.

Slide – Construction Services

You can see from this slide that profits for Construction Services were down from £169m last year to £122m this year.

As anticipated margin for our US construction business fell in the first half but was broadly stable in the second half, aided by some favourable contract settlements.
Margins in the UK construction business benefited from the successful conclusion of a number of our larger more complex projects. The second half suffered with reduced profitability from available margins, exacerbated by difficulties with the supply chain, and we expect these conditions to persist through 2013. This will be

somewhat mitigated by the benefit of the restructuring and cost efficiency programmes which will increasingly feed through in 2013 as the year progresses.

Conditions in the UK & Mainland European rail sectors have been difficult in the year. Andrew will cover the results of the review we have undertaken in rail later.

There was a particularly strong profit performance from our construction JV’s. In the first half the improved cash environment in Dubai resulted in the reversal of bad debt provisions and also facilitated final close-out of contracts. Gammon continues to benefit from strong infrastructure spending from government. The results were after costs of circa £4m that we incurred in investing in development of our international business, particularly in India and Brazil.

Turning now to Support Services…

Slide – Support Services – FY 2012 by market

Following the strong order intake in 2011, the order book remained stable overall during the first half of 2012, and accelerated in the second half largely as a result of the award of the £1.1bn National Grid gas contract in December in conjunction with Professional Services. This significantly increased the order book in Power transmission as expected following the fall in the first half.

Water orders continue to decline as we work through the contracts won during the AMP5 bidding round in 2009 and 2010.

We saw continuing order growth in transportation due to contract wins including Area 10 and Scotland Transerv highways maintenance.

Revenue trends generally repeat what we saw in the first half, except in Transport where road maintenance and rail renewals were both down.

Turning to margin performance.

Slide – Support Services

Profit of £52m was down on the £67m profit from last year. All of this shortfall occurred in the first half and was due to contract start-up costs in the building and local authority markets and some £10m of one-off increased costs in the first half on Utilities contracts in Australasia.
For 2013 we would expect to see continued growth in the Power and Buildings segments, a reasonably stable water business, but with increasing volume and margin pressure in rail renewals as the market becomes more commoditised.

Before moving onto the Investments segment, let’s have a look at the phasing of our order book where the profile is shifting and it is particularly important this time around to understand this.

Slide – Order book position compared to a year ago

The current order book is shown in bold, which totals £15.3bn which compares with £15.2bn at the same point last year, shown lighter.

You can see that the order book continues to give us good visibility, although we have somewhat less visibility in the short term i.e. for 2013 and somewhat better visibility for 2014 and beyond. The improved medium term visibility is largely a result of increases in Support Services, which now accounts for 37% of the order book. This is up from 30% two years ago. In contrast, construction has dropped over the same period from 60% to 52% of the order book.

Looking at Construction in more detail, coverage for the next 12 months has fallen by 15% to £4.5bn of orders. As already noted, this is now more weighted towards shorter term contracts, whilst orders for 2014 have increased from £1.9bn 12 months ago, to £2.1bn benefiting from the growth in large infrastructure projects in Gammon. This is however still 15% less than the equivalent figure of £2.5bn two years ago.

Slide – Infrastructure Investments

PPP concession profits increased sharply overall compared to 2011. Before disposals gains, they reduced from £23m in 2011 to £17m this year. This was principally due to increased bid costs, which can be lumpy and are affected by the level and stage of bid activity, and also includes costs of setting up the infrastructure fund. Bid costs ran higher than last year in the second half, as anticipated.

This year the disposal of two stakes in the first half generated disposal gains of £52m which exceeded the gains of £40m we had targeted on those particular assets, and was £32m ahead of last year. As previously announced we are targeting gains of £40m per annum for the next two years.

Overall, therefore, including sub debt interest income of £24m, and PPP subsidiary net interest of £4m, we delivered a very strong pre-tax result from investments of £97m.

Slide – Infrastructure Investments

I will **not** go through this slide in detail, but emphasise that not only did we achieve good earnings performance in 2012, we were active in moving the investments business into new areas. This included waste, energy and student accommodation, which are less dependent on the government's PFI programme, and of course the creation of the infrastructure fund.

I will come back to the Directors' valuation in a moment.

Turning to the interest line.

Slide – Net interest income

We had a net interest income of £1m for the year, compared with £3m last year.

There was a £5m increase in interest payable as a result of our lower average net cash position.

The net finance cost on pension schemes improved from a cost of £3m last year to a neutral position this year. As you know, there is a change in accounting standards for pensions, which I will show on the next slide.

Slide – Impact of revised IAS19 standard

Under the old pension accounting standard, different rates of interest were applied to the return on assets, and the liabilities. The new standard requires you to use the obligation discount rate for the asset return. The impact of the new standard is therefore very sensitive to the gap between these two interest rates.

You can see that the gap between these two rates for 2011 was 0.65%, giving an increased cost of £17m on the 2011 results.

This narrowed for 2012 to 0.35%, and an increased cost of £10m.

At the interims we estimated that the impact on our 2013 results would be an additional interest cost of £13m based on a gap of 0.4%.

Due to the reduction in corporate bond rates in the second half of 2012 which are used to value pension obligations, the gap has increased again to 0.70% so that we now calculate the impact to be £21m, or £8m higher than we expected.

Whilst very useful for your models and estimates, clearly this has no impact on cash, which is determined by the funding valuation from the latest actuarial review. Our next valuation date is at the end of this month.

I will touch on this and some other pension points later.

Turning now to our European rail restructuring.

Slide – Mainland European rail restructuring

It is perhaps worth reminding you of the scale and origins of our Mainland European rail business. Our rail business, principally based in Germany, Sweden, Italy and Spain, had revenue of just under £500m in 2012. The origin of the business dates back to acquisitions in 2000 and 2005. Payback on these had been achieved by 2006, however we have now decided to divest these businesses. Andrew will cover the rationale for this later.

From an accounts perspective, we have taken a £95m non-cash goodwill impairment and incurred £9m of restructuring costs in 2012.

Since the year end we have completed the disposal of Spain to its management.

Now moving to the cost efficiency programmes.

Slide – Cost efficiency programme

I will be brief about this slide as Andrew will go into detail later but just to say that we are on track to deliver our target of saving £80m costs per annum by 2015. We have achieved £36m in savings in 2012, with costs in the year of £61m.

Turning to other non-underlying items.

Slide – Other non-underlying items

These costs are largely unchanged from the first half, with the addition of an extra six months of intangible asset amortisation.

Post-acquisition integration and reorganisation includes £8m of costs on the legal case we lost in the first half which is £3m less than the figure we booked in the interims, due to an improved settlement. We continue to pursue other avenues to reduce the net cost to us of this case.
We wrote down our investment in Exeter Airport at the interims due to reduced passenger numbers, and we have incurred an additional £5m on expanding the scope of the UK shared service centre.

Slide – Cash from operations – FY 2012

Cash used in operations was £219m, down from last year with the main impact being increased working capital outflow, along with the impact of non-underlying costs. Pension deficit payments were £3m higher than last year.

I will come back to working capital and pensions in a minute, but let me first cover the key components of our balance sheet.

Slide – Balance sheet elements

I have shown you this slide a few times now. There has been very little movement in it since the interims and it continues to show that we manage our balance sheet to ensure that we maintain an appropriate balance between investments, working capital and cash. Through the downturn in the cycle we will see the cash and working capital compress, and we will see it expand again when we return to growth.

I will now go through each element in turn, starting with the PPP investments.

Slide – PPP portfolio valuation movements – FY 2012

We have left the pre-tax discount rates used to value the portfolio unchanged at 9.5% for the UK, and 12.0% for the US. The rate covers a range of maturity of assets, but we believe continues to be a conservative discount rate – as evidenced by our gains on disposals against the Directors' valuation. The gain against Directors value is £17m of the £26m shown at the bottom of the table.
The most significant item in the reconciliation is the disposals and distributions of £169m. Offsetting this is the investment of £55m of cash and £75m from the unwinding of the discount, leaving the valuation at a healthy £734m, down only £9m from the start of the year.

I have included a slide in the appendix with the annual cash flows, and how the NPV changes over time. It shows that even with cash distributions of c.£50m per annum, and no cash reinvestment or disposals, the value of the portfolio will continue to increase for the next ten or so years. This allows us to pursue our disposal programme whilst maintaining the value of the portfolio.

Turning now to working capital

Slide – Working capital - Group

The movements in working capital in the second half have been very much as anticipated. On the right hand side you can see that negative working capital at the end of the year was 8.3% which is slightly more negative than at the half year. I have included graphs for Professional Services and Support Services in the appendix but the most significant changes are in Construction Services, so let's look at those in more detail.

Slide – Working Capital – Construction Services

Overall working capital as a percentage of revenue ended the year at the same level as the half year. This is really the net of a reduction in the UK and an increase in the US, so it is worth looking at those separately.

Looking at the UK construction business first.

Slide – Working capital – Construction Services UK

You can see that there was a small reduction in the percentage, but a somewhat bigger reduction in the absolute level, due to the volume reductions experienced in the second half. Overall the percentage of 16.2% is very similar to the year end position four to five years ago which was before the big ramp up in PFI activity.

I do expect both the percentage and the quantum to drop further in 2013 through both further mix effects as the higher proportion of regional activity flows from the order book to revenue and the anticipated volume reductions.

It is worth emphasising that debtor days and creditor days have remained very similar, and so the changes in working capital are a result of changing mix in business with different payment schedules, rather than a change in how quickly we collect invoiced amounts or pay our supply chain.

Turning now to the US.

Slide – Working Capital – Construction Services US

You will see from this slide that the US working capital reversed somewhat at year end with both the percentage and the absolute level of negative working capital increasing. Looking forward, I am expecting working capital to remain around this level with possibly an increase in negative working capital in the second half of the year, if order intake picks up.

The other side of the working capital movement is of course cash, so let us now look at that.

Slide – Average net cash / (borrowings)

Net cash ended the period at £35m in line with the interims.

As before, I have included in the appendix slides showing the split of cash between available cash, restricted cash and borrowings and the undrawn available facilities.

I said last August that I intend to diversify debt funding sources away from purely bank facilities and I am pleased to say that we completed a US Private Placement this week which raised $350m at an average coupon of just under 5%, and with an average maturity of just over 9 years. This coupon represents an incremental cost of c. 4% compared with our existing revolving credit facility, and therefore will increase our interest costs by about £9m per annum. Whilst this was raised for general corporate purposes, and to create a new source of funding, it also serves to match the maturity of the $110m we will invest into our Infrastructure Fund.

Turning to the last component of the balance sheet I showed you earlier, namely pensions.

Slide – Pensions – balance sheet movement

You can see that our pension deficit of £338m is £250m less than 3 years ago despite the very low discount rates used to value the obligations. Clearly the deficit has benefited by the £255m of deficit funding we have made over that period.

Perhaps to give some sense of discount rates, if the real discount rate reverted back to the December 2009 rate of 2.15%, our liability would be around £300m less. Of course, pre financial crisis we were more used to seeing real discount rates of 2.5% to 3.0%.

The accounting may be interesting to some, but the key issue is funding and cash payments. The date of our triennial valuation is at the end of this month. In advance of this we have been doing a more detailed review of our pension arrangements. Firstly, we have reviewed our mortality performance over the last 12 years, and have updated the assumptions for both schemes for our actual experience. This has resulted in a reduction in liabilities of £49m.

Secondly, we have concluded that as a result of the very low interest rate environment, and asset performance, that we need to review whether keeping the Balfour Beatty pension scheme open for future accrual remains affordable. We are currently in consultation with some 2,500 of our employees to cease future accrual in their sections of the Defined Benefit scheme and offer them an alternative Defined Contribution arrangement. If implemented, the net impact of this will depend on the level of DC contributions take-up, but we would expect it to give us a P&L benefit of £10m - £15m in a full year. There would be a one-off non-cash accounting charge which we currently estimate at c.£50m. On a funding basis (i.e. using a discount rate based on gilt rates rather than high quality corporate bonds) the pension fund would see a deficit reduction of around £200m. Our discussions with the Trustees on a revised funding plan will obviously factor in this change, if implemented, and we would expect to complete these discussions by the end of the year.

Slide – Summary of 2012

So let me summarise our performance in 2012.

The order book has remained broadly stable at £15.3bn.

We achieved a good margin performance in Professional Services, and the crystallisation of value in our Investments business has partly offset profit reductions in Construction Services and Support Services.

We have seen a further cyclical reduction in cash, but our balance sheet continues to be supported by our investments portfolio.
Pre-tax profits were down 7%, EPS down 1%, and we are proposing to maintain a final dividend of 8.5 pence.

So at this point I’m going to hand you over to Andrew which is a first.

2012 full-year results presentation script
7 March 2013
Market and strategy review
Andrew McNaughton, Deputy CEO and COO

Title slide

Good morning everybody.

While I don't take over the leadership of the Group until the end of this month, I have supported Ian since 2009 as Chief Operating Officer, and over the last 12 months have had specific responsibility for the development of the strategy.

We have spoken to you at length about this strategy, our future direction and key objectives, and gave you an update just a few months ago, at our Investor Day in December.

We are now seeking to move forward at pace with the implementation of change in the organisation in support of the strategy, and so I am pleased to have this opportunity today to share some of my thoughts with you.

Slide – Introduction

The task we have taken on is a significant evolution of Balfour Beatty. There are a number of specific initiatives that we need to implement to get us there, but we are taking steps that are moving us forward, and we continually see signs in the markets that give us confidence that this is the right direction.

So today, I would like to start by updating you on our response to market conditions and elaborate on some specific actions over the next few months, and then work my way through to the more strategic initiatives we are implementing.

Slide – Construction markets

Through the past year you have heard us talk at some length about the near-term outlook in our construction markets.

In the UK, the deteriorating conditions we communicated in November last year have persisted, and we don't see any change in construction markets to alter our view.

In the US, around 80% of our business is focused on public and private buildings. In this segment, there has been some improvement in the order book since the start of the year, with some contracts in awarded but not contracted moving into the order book.

In the US civil infrastructure market, where we are strong in highways, rail and water, we have announced some good wins. Dallas Horseshoe win in November and the recent water win in Southern California are good examples. There is a good pipeline of similar contracts, but the growth from such contracts can be lumpy due to the size and duration of the projects.

The final observation I would like to make looking at our prospects in the US is one on the timing of margin improvement. In the buildings market, it may take 12 to 18 months for order books in the industry to rise to a level that gets reflected on higher margins in the market, and a further period – depending on the type of project – for these margins to come through in our P&L.

Overall, we see a difficult year for Construction Services. We have anticipated and planned for these near-term headwinds. In reality however, the downturn has been deeper and longer than we and others had envisaged.

In this environment, cost and risk management are vital, and hence we have to be disciplined in our bidding for contracts. We also have to be even more proactive about the management of the cost base. We have talked about our cost efficiency programmes previously and we are continuing to drive them forward.

Slide – Cost efficiency update

As Duncan has mentioned, we are on track with Phase 1, and Phase 2 has started delivering. So let me talk about Phase 2 in a bit more detail.

This programme is broader and deeper than Phase 1 and targets an additional 50 million pounds of annual savings by 2015. We have already made good progress.

The UK construction business has been rationalised as one business with three business streams focused on major national projects, on regional markets, and on engineering services. With a structure of regional delivery units, we are gaining efficiency and flexibility, optimising back office support functions and the number of offices we occupy. This operating structure is in place.

The US construction business is moving to a unified operating model, encompassing buildings, rail and infrastructure. They have streamlined from five to three regions: West, East, and Central. As part of the structural realignment, a national Capability Centre was also formed to harness expertise, capture best practices and deploy that knowledge across the national business. The new structure focuses on sharing resources and contributes savings.

Our Support Services division is also implementing cost reduction measures as we speak, although these are more tactical in nature as we are not changing our operating model.

Slide – Cost efficiency phasing

Together, our initiatives are expected to reach a run rate of 66 million pounds in 2013, and we are planning for a run rate of 78 million pounds by the end of 2014, with the full 80 million to be achieved in 2015.

These are big numbers, and will help us through the downturn, but we would not be doing our jobs well if these programmes were purely cost cutting measures. In every decision we make, we consider increasing agility, proximity to the customer and collaborative working, so that our businesses will be in the best shape possible when cyclical recovery starts.

Slide –Rail operations in Mainland Europe

Our Rail business is another area where we have been taking deliberate action in response to market conditions.

As an integrated part of the strategy work I have been undertaking over the last 12 months, one of the key decisions has been the future direction of our global rail activities.

As Duncan mentioned, our rail business has evolved over the years and has grown, mostly through acquisitions in Mainland Europe. These have been very successful for the Group. For example in Italy and Spain, we have run very profitable operations for many years. However the investment programmes in both countries have been curtailed with no real prospect of recovery in the medium term.

In addition, a long-term view of our strategy predicts that sustainable operations in specific geographies should be based on strong presence in a number of market sectors. In Mainland Europe, we essentially only operate in rail.

We have now concluded that maintaining a rail presence in Mainland Europe is not consistent with our strategy of building a number of market sectors in specific geographies. Therefore, we will be divesting of all of our Mainland European rail businesses through a process that ensures that the businesses and their customers continue to receive full support.

As a first step in this direction, we have sold the Spanish business to its management.

Slide - Rail business a key strength in strategy

At this point let me address the role that rail continues to play as a key strength in the Group's strategy.

As we have said before in terms of our target market sectors, the global rail market is large at £50 billion per annum. The market is growing and this dynamic is expected to continue owing to long-term drivers such as sustainability and urbanisation as well as the on-going need for asset renewal. There is no doubt in our minds that from a strategic perspective, the international rail market will be a key element of our future development.

We have had good success in winning international major projects as a result of our technical expertise in rail design and specialisation in electrification. You may remember the projects in Denver and in Melbourne. In addition, our success in securing the programme manager role for Qatar Rail demonstrates our capability to deploy our knowledge of rail systems around the world.

We can see an increasing number of major opportunities for us to combine programme management, design, delivery and systems integration in the urban environment. As a result, major projects remain at the heart of our global rail strategy.

Slide – Facilities management business

Staying with the theme of restructuring, I would also like to take this opportunity to give you a brief update on the potential disposal of WorkPlace, our facilities management business within Support Services. We confirmed in February that we are exploring our options for this business.

WorkPlace has grown over the years and has evolved into a standalone business, but as we focus our efforts on economic infrastructure, we are exploring the sale of this business as this may generate more value and enable us to redeploy capital behind our strategy.

It is obviously early days to say any more than this.

Slide – Strategy - Leveraging key strengths

Until this point, I have described actions that are our responses to market conditions or structural challenges. I would now like to focus on some of our initiatives to achieve our strategic objectives for the Group.

In essence, as we have told you before, our strategy is to leverage key strengths in target markets to achieve incremental growth and value. These key strengths include:

- local presence in multiple geographies,
- end to end asset knowledge, and
- skills as an investor and developer.

Slide – Strategy – Target geographies and market sectors

We believe that the combination of these strengths provides us with clear differentiation. This is particularly the case in our target market sectors – transportation, power, water and mining – and the emerging markets and resource-driven economies where we see growth potential.

I'd like to spend a few minutes talking a bit more about the developments around each of the key strengths in turn.

Slide – Strategic developments – Local presence

In order to demonstrate how we are developing our local presence, let me take you to Australia where we have 3,000 professional services employees. As you know, highways maintenance is a core strength of ours in the UK, and Australia is a target growth market. So, State government outsourcing in highways maintenance is right in our sweet spot. We expect that over the next two to three years, there will be up to 12 contracts tendered in Australia and we are competitively positioned to bid for these deals.

To this end, we have mobilised a specialist team from the UK to support our well established Parsons Brinckerhoff business in Australia, and formed a bid consortium in partnership with Transfield Services to target these opportunities.

It goes without saying that without Parsons Brinckerhoff on the ground, we couldn't have tapped into this opportunity from the UK. PB's services create the access routes to these markets through their local presence, client relationships and the advantage from being at the very top of the value chain.

Slide – Strategic developments – End to end asset knowledge

Moving on to end-to-end asset knowledge. For some years, we have organised ourselves along lines of capability, namely Professional Services, Construction Services, Support Services and Investments. The idea has been to capture and share our knowledge across the whole asset lifecycle, and as a result, drive value for the customer and the Group.

Despite their size and the enormity of their asset base, our customers are local or national companies in most instances. Their assets are national assets, and they rarely cross borders. There are exceptions to this in mining for instance, but the broad assertion still stands.

Balfour Beatty is now ready evolve its model to reorganise its operations and employees around customers in their respective market sectors. This involves looking at each country where we have scale and scope, and breaking down the barriers that divisional structures create. We have been calling this new operating model our 'country model'.

To maximise the value of this structure for the Group and for our customers, we are changing the way we work in order to deliver the knowledge of the Group for the benefit of local customers and communities. This means not just evolving the culture, but also arming our people with tools and processes.

We have been working on this for some time and now for the first time, have a technology platform – that we call 360 - that supports 35,000 of our employees in 80 countries around the world. With instant access to the full extent of our expertise, knowledge and experience, we are breaking down boundaries and already have examples of knowledge transfer in action, such as power generation from the USA to Australia, rail from UK to Canada and highway design from Australia to Qatar.

So to conclude, we have reached the point with our country model where we are now ready to start deploying it across our footprint, and my focus will be to drive this forward.

Slide – Strategic developments – Skills as an investor and developer

Turning to our third key strength, our investments business has had an outstanding year, not just operationally, but also in terms of furthering their diversification strategy in line with the Group's target markets. What used to be a PFI portfolio of roads, hospitals, schools in the UK, and a military housing portfolio in the US now

encompasses student accommodation, waste-to-energy projects, and offshore transmission assets. The possibilities have multiplied, reliance on PFI and PPP has reduced significantly and we are seeing an increase in opportunities to act as a developer of greenfield infrastructure assets.

The investments business is also tapping into brownfield investment opportunities by developing the funds management business. We announced first close on the first fund in January and have since increased the commitments to 420 million dollars. Furthermore, the fund has recently committed its first investment which is a UK renewable energy portfolio. We aim to update you on further closes in 2013.

Slide – Summary

In conclusion, we continue to see 2013 as being a difficult year for Construction Services, but we are confident that we are responding to these market conditions with effective actions.

But structurally and strategically, the most important dynamic is the transition for the Group: from construction in our home markets to our target geographies and chosen market sectors. As a result of this shift, we will demonstrate better growth dynamics and return characteristics, while improving the resilience of the Group through the economic cycle.

Looking back at the progress I outlined just in the last 15 minutes:

- we have taken action to reduce cost;
- we are working on divesting non-core rail operations and exploring options for WorkPlace;
- we are reinforcing our local presence;
- we are rolling out the country operating model; and
- we are diversifying our investments business into new sectors as well as developing the fund.

Looking forward, my focus will be to provide pace and momentum as we progress and as we deploy the country model across our footprint. I intend to give you more detail on our first few countries at the half year results presentation in August.

As I prepare for the task ahead, I will leave you with the message that while our outlook is cautious for the near term, we look to the medium term with confidence.

That brings us to the end of our presentations. I am now going to ask Ian and Duncan to join me on the podium to start the Q&A session.