2013 full-year results presentation script
6 March 2014
Opening remarks
Andrew McNaughton, CEO

Title Slide

Next Slide - Opening remarks

Good morning everyone and welcome to the presentation of our full-year results for 2013 and a look ahead for Balfour Beatty in 2014 and beyond.

Today, I look back over my first 12 months as chief executive.

Overall, the company has not performed as well as it can do and we have had to deal with some significant issues in the UK and in Australia. However, there are significant parts of the Group that have performed in line, and indeed ahead of, our expectations.

In particular Parsons Brinckerhoff, our professional services division, has made good progress in US Transportation, and after several difficult years of trading has seen the Middle East region return to growth and a more positive outlook in the UK.

Overall, it has ended the year with a solid backlog and a good pipeline of prospects for 2014.

Our Investments Division has delivered an excellent operational performance, successfully securing value both from disposal of mature assets and strengthening our asset portfolio, particularly in the United States, ending the year with a portfolio valued at £766m even after this year's sales.

Our Support Services business has also provided a solid performance. Throughout the year it's won over £1.0bn of new work and that's been secured largely in long term framework style contracts across the utilities, highways and also in rail.

Finally, our US Construction business has, as predicted, seen good revenue growth in the second half of 2013. Overall, the order intake for the year increased by some 54%, securing a forward workload in excess of $5bn.

The performance of the UK Construction business in 2013 has been the subject of regular updates and I will return to this and the progress that we have made later this morning.

After Duncan has taken us through the detail of last year's performance, I intend to outline the work that we have been doing across the Group both prior to and during 2013 to capitalise on what we believe is an impending economic recovery that will benefit our industry.

This will give you a clear view of the direction which I am setting for Balfour Beatty, after that we will answer any questions you may have.

But for now I'll pause and let Duncan outline the financial performance in more detail.

2013 full-year results presentation script
6 March 2014
Financial review
Duncan Magrath, CFO

Introduction

Thank you Andrew and good morning everybody.

I am not a big fan of the round ball sport but one of its phrases I think is probably apt for 2013, which is that it was really a game of two halves. We had the well-publicised difficulties in UK Construction in the first half and also a severe market downturn in Australia.

Whilst the markets were still challenging in the second half of the year, we saw a significantly better financial performance and we enter into 2014 with some emerging signs of improvements in some of our core home markets in the UK and the US.

But let's look first at the numbers for the year as a whole;

Next Slide – Headline Underlying Numbers

Overall for the year as a whole, the order book and revenues were broadly stable across all of our Divisions and I will go into the individual details later. You can see that the profit from operations pre-tax profit and underlying EPS, were all considerably down on 2013 v 2012. We had a strong cash performance towards the end of the year, in particular benefitting from the disposals proceeds from Workplace, which resulted in a year end net debt position of £66 million, down from net cash of £35 million last year. The average net debt position of £366 million was more significantly down on 2012, principally due to the working capital outflows that we anticipated and saw during the year.

As you know, we had an active disposal programme during 2013 of investments from our portfolio but I will show later how despite this and keeping discount rates unchanged, the value of the portfolio increased to £766 million by the end of the year.

So whilst it was a difficult year, we ended 2013 with a strong balance sheet from both a net debt and an investments perspective and with some improvements becoming visible in some of our markets. Consequently the Board has declared a final dividend in line with last year to make a total dividend of 14.1 pence.

Now to give a little divisional colour on these Group figures.

Next Slide – Professional Services

I have changed the format of these slides from previous years. I have shown the level of the order book at each six month period for the last four years and also the revenue in each of those six month periods for the last four years. Hopefully this will allow you to see how the trends have developed over time more easily.

Clearly with the acquisition of Parsons Brinkerhoff in 2009, it is best to look at the trend information from half year 2010 onwards. The key impact in 2013 was the significant downturn in Australia which I will go into in more detail later, and whilst its impact on the rest of the world order book is somewhat masked by a strong performance in the Middle East, you can see quite clearly on the dark blue Revenue line the impact in the second half of the year.

Elsewhere, we saw a good performance in the US, with the order book up 6% and revenue up 8%, and whilst we saw a further reduction in the UK order book, revenue was only down 4% and as I mentioned at the half year, the outlook for this business now feels more stable.

Turning now to Construction Services.

Next Slide – Construction Services

On the order book slide, you can see the red line for the US Construction business crossed over the grey UK line in the first half of 2011. Whilst both these businesses saw falls in their order books through 2011 and 2012, you can see on the Revenue graph that in the second half of 2013 US revenue finally overtook the UK revenue.

Given the significance of changes in the US market, I'll go into this in a bit more detail on the next slide.

What is also obvious from both these slides is that the grey lines for the UK construction business have been on a reasonably steady reduction since the first half of 2010, however, we have seen a slight improvement in the second half of 2013 in both measures, although at the moment, I would describe this as stabilisation, rather than the start of an upwards trend.
There are some changes in the mix of business going on within UK Construction, which I will also deal with on a later slide.

The rest of the world is principally our Middle East and Far East construction JV's and increases in order book and revenue are solely down to the performance of the Gammon JV in Hong Kong and Singapore. Its order book is now ten times the size of the order book in Dubai, and its revenue in 2013 was over four times the size of Dubai. And if you went back 5 years, these two businesses were of a similar scale, which shows the divergence of activity in those markets with huge investment in Hong Kong and in particular into infrastructure and on the other hand the scale of the decline in the market in Dubai from its peak.

Now turning back to US Construction to put some more colour on the order book progression.

Next Slide – US Construction

On the left hand side the bars show new orders signed in each six month period and this obviously excludes any order books acquired with new acquisitions. You can see that we had a very strong order intake during 2013 and indeed the order intake in the second half of 2013 exceeded even that in the second half of 2010 when we benefited from a very large federal stimulus programme.

On the right hand graph, I have shown you two measures.

The red line shows the ratio of book to bill i.e. when the line exceeds 1, we are signing more orders than we are burning off through revenue and when it is less than 1, we are burning through more revenue than the orders that we are taking.

Again, you can see the peak in 2010, when this ratio exceeded 1.5 due to the federal stimulus programme, but that it dropped back very quickly and has been running at less than 1 through 2011 and 2012, but in 2013 it has finally increased to over 1.

The blue line on the graph shows the ABI Index averaged over the previous 6 month period.

This Index measures whether the architectural billings are increasing when it is above 50 or decreasing when it is below 50, and is generally considered a leading indicator of non-residential construction activity, with about a 9-12 month lead time.

From the blue line you can see that we positioned ourselves well for the federal stimulus programme in 2010, and clearly gained market share in an overall non-residential market that barely grew. More recently the order intake we saw in 2013 has benefited from some recovery in the market, evidenced by the ABI Index above 50, however we believe most of our increase is a result of gaining market share, with the market still approximately 30% below its peak. By the way, don't worry about the red line dropping off in H2 2013, this is a function of the pick-up in revenue in the second half.

Just one word of caution, clearly the ABI Index is aligned with our US building business. Our infrastructure and rail orders are shown in light blue, there are opportunities in this market although competition remains very strong.

Now turning to Support Services.

Next Slide – Support Services

The key feature of this slide is a noticeably sharp increase in the dark blue line for the power order book in the second half of 2012, which has fed through to strong revenue growth of 18% in 2013.

2013 was likely to be the peak for power transmission work in the UK and therefore going forwards, we need to look to see if we can generate growth outside of the UK.

Looking at transport, whilst there has been a steady growth in this business over the last few years, we're likely to see a fall back in this business in 2014 as our rail renewal activity for Network Rail comes to an end.

The red line for water shows the classic characteristics of the AMP cycle with a boost in orders leading into the cycle. At the start of the cycle, we see a drop in revenue as work orders are established and then they catch up in the subsequent year, and then a reasonably steady period thereafter.

We are obviously expecting to rebuild this order book during the AMP 6 bidding cycle in 2014/15.

Turning now to Infrastructure Investments.

Next Slide – Infrastructure Investments

It has been both a busy and successful year for the Investments investing into new opportunities but also the disposal of some more mature investments. We reached financial close on eight projects – four in the student accommodation arena in both the UK and the US. We achieved five preferred bidder positions; pleasingly this includes our first PPP in Canada. We reached first close on our Infrastructure Funds business which now has commitments of $500 million. And despite selling assets for gross proceeds of £128 million, we saw the Directors valuation rise to £766 million at the end of the year. I will come back in a minute to show the components of the movement in this valuation.

So now turning to a summary of profits by Divisions.

Next Slide – Profits from operations - by segment

Professional Services profitability declined from £98 million last year to £54 million this year, which was almost entirely driven by the reduction in profitability in our Australian business triggered by a severe cut-back in mining capex. We were expecting some of this shortfall to be offset in 2013 by the settlement of our long-standing contract dispute however we now expect this to happen in 2014.

In Construction Services the year on year decline was largely due to the UK but also it suffered in comparison with 2012 when we benefited from the bad debt provision releases in Dubai as we received the cash on old debts. In the UK, whilst we entered the year with reduced profit expectations in the light of the declining market, as you know we had to announce in April that we would fall short of even those reduced expectations by £50 million. I will go into this in a little more detail in a minute.

Support Services had a very strong year, partly benefitting from a difficult 2012 with some power transmission projects in Australia and New Zealand but principally from strong performances in the UK power and transportation markets.

In Infrastructure Investments, the increase in profitability was principally due to £30 million of additional investment gains over that achieved last year. The reduction in UK profits as a consequence of disposing of some of the more mature assets was more than offset by an increased performance in the US Investments business as a result of increased fees on our military housing projects.

So overall, after corporate activities profits of £203 million compared with profits of £284 million for last year.

So looking at that Australia performance in a bit more detail.

Next Slide – Australia Performance

We saw a very significant fall in the market and our revenues particularly during Q2 and Q3, and we have consequently had to take action to dramatically reduce our cost base. By the end of 2013, we had reduced the cost base to 30% below the level it entered 2012. This equates to approximately a £70 million reduction in annual costs and the cost of achieving this was just over £20 million in redundancy and lease provisions. Inevitably we could not take out this cost as quickly as revenue, and therefore we were loss-making in 2013, but based on the current market conditions and with our reduced cost base, we anticipate Australia being broadly break even in 2014. Clearly it will be some time before we can get back to the levels of margin performance that we were achieving before this market downturn.

Turning now to Construction UK.

Next Slide – Construction Services UK

As you know, the mix of our business has been changing for some time now. The proportion of our Regional business has been increasing and the proportion of our Major Projects business decreasing. We expect this shift to the Regional business to continue into 2014 as we see improvements in volume and pricing in the Regional market benefitting from the now tangible increases in the housing activity. This is in contrast to the continuing weakness of the Major Projects pipeline, particularly in the infrastructure space.

As I mentioned earlier, in 2013 we had to announce in April that our expectations of profitability for this business had reduced by £50 million. Inevitably, there were some projects that finished better than we expected, some worse, but overall we ended a further £10 million down from those expectations. Whilst the Regional business performed in line with our expectations, there was some weaker financial performance on selected major building projects, and also we saw a deterioration in the performance of our sub-contract engineering services business, in the fourth quarter.

Looking into 2014 and with the risk of increasing prices, we anticipate that the market for our sub-contract engineering services business will continue to be challenging.

Next Slide – FX Rates

Just a quick slide to highlight the sensitivity that we have to movements in exchange rates.

Sterling has clearly strengthened in the last few months against the US dollar and we are running at a 2014 average exchange rate of $1.66 compared with an average exchange rate for the whole of 2013 of $1.57.

Our sensitivity to a 1c movement in the exchange rate is around £0.8 million of profit and so if this current average exchange rate persisted throughout the year, we would see about a £7 million reduction in our reported profitability, versus 2013.

Next Slide – Cost Efficiency Programme

Whilst our financial performance during the year was disappointing we have continued to make progress on improving our underlying cost base and we still remain on track for our annualised £80 million of savings by 2015. Indeed we achieved £70 million of savings in 2013, excluding the savings that we have done from restructuring that we have done within Australia, and the closure of the DB scheme to future accrual which has a significant future benefit.

Turning now to the costs that we have invested in achieving those savings.

Next Slide – Non-Underlying Items

We obviously have incurred considerable non-underlying costs in 2013 but I believe the business is now much better positioned entering 2014 as a result of this. We have more efficient operations in both the UK and the US construction businesses and we have increased the volumes of back office processing going through both the UK and US shared services. We also incurred considerable costs in restructuring the Australian business which was unfortunately necessary in the light of the very severe market downturn but as I have already shown you there was a very quick payback on these costs. Finally the £52 million pension curtailment charge which was non cash in the year was as a result of closing our main defined benefit pension scheme to future accrual which was necessary to limit our future liability. It also gives us cash savings which build up over the years. On a self-sufficiency basis and net of the £50 million curtailment cost, we will save approximately £250 million on a net present value basis of future DB contributions. After the contributions we will make to those who transfer into the DC pension fund it will give us a net NPV saving of circa half this.

Moving now on to cash flow.

Next Slide – Cash Used in Operating Activites

Cash used in operations improved from £238 million last year to £175 million this year. Essentially the reduction in profitability year on year, was offset by a £183 million reduction in the working capital outflow for the year. I will then carry these subtotals across to the next slide.

Next Slide – Net Cash Flow before Financing

You can see that we invested £33 million in infrastructure intangibles and assets in the course of construction which are essentially capital investments in our UK and US student accommodation projects. Our equity or subordinated debt injections into our infrastructure assets and fund increased from £55 million in 2012 to £59 million in 2013, although this was offset by increased disposal proceeds up from £84 million last year to £128 million this year. The most significant item however on the cash flow is the £139 million, which was the cash received in 2013 on our Workplace and Rail disposals net of the cash disposed of within those subsidiaries. Overall therefore we ended up with a small cash outflow in the period before financing activities of £3 million, improved from £168 million outflow last year.

Turning to some key components of our balance sheet.

Next Slide – Managing the Balance Sheet

I have shown this slide before, but just a reminder that the aggregate shown as a green line is a combination of net debt and working capital from the balance sheet, and the Director's valuation of the Investments portfolio. The aggregate has improved in the year, partly due to the improvement in the Director's valuation, but also due to the impact of the Workplace disposal.

On the right-hand graph, you can see that we have increased headroom over the last few years to maintain an appropriate level of liquidity.

Going through each component and turning first to the investments portfolio.

Next Slide – PPP Portfolio Valuation Movements

Firstly I should point out that we have left the discount rates used to value the portfolio unchanged.

The net cash we received from the portfolio increased from £114 million last year to £163 million this year. The unwind of the discount stayed broadly level at £74 million. The proceeds of £128 million exceeded the Directors Valuation by £45 million. Finally we saw increases in the value of the portfolio, principally due to the impact of increased inflation of £72 million. As an aside, this is of course a useful offset to the impact on our Pension Fund deficit from increased inflation assumptions, which in the year increased the deficit, net of hedging, by c£60 million.

Now turning to look at those working capital movements in more detail.

Next Slide – Working Capital

Firstly it is worth pointing out that each of these four graphs is repeated in the appendix of your pack so you can look at them in more detail but I wish to give you the overall headlines from this slide.
The working capital movement for the year was somewhat better due to a very strong performance at the end of the year. Overall each of these individual divisions performed largely in line with expectations. In the top left-hand graph you can see that the US construction working capital has very much stabilised over the last four periods and given the revenue growth I outlined earlier I believe we will start to see negative working capital increase in this division in 2014.

Looking at UK construction in the bottom left-hand graph we saw the expected further working capital outflow in 2013 and as previously highlighted I anticipate a further working capital outflow in 2014 due to the continuing changes in mix of business, I currently estimate this to be of the order of £60 million.

Looking at the top right-hand graph professional services has stabilised around the 5-6% level. There is a mix within these figures of higher positive working capital in the US business and lower working capital within the Asian business. Changes in volume and mix may drive these figures slightly higher but these will be reasonably small amounts compared with the movements in the construction businesses. In the bottom right hand corner you will see the graph for Support Services where as anticipated the build-up of the National Grid contract during 2013 resulted in us ending the year at positive working capital position and we may well see some increased positive working capital here in 2014.

Overall therefore for 2014 I would expect a further £60 million outflow related to the UK construction but would expect the net position across the year for the remainder of the business to be broadly neutral.

Now looking at the third component of our aggregate position, which is cash.

Next Slide – Net Cash / (debt) balances

This graph shows that during 2013 we replaced the borrowings under our central facility shown as the grey bar with longer term fixed rate debt through the US private placement and the convertible bond. Looking forwards into 2014 and starting with the average £433 million for the second half of 2013, I would expect us to operate around £350 million of average net debt for 2014. There are essentially three factors affecting this figure. Firstly the receipt of £155 million for the Workplace disposal at the end of 2013 will improve the average net debt position. Secondly, as I just stated, we will see a small further working capital outflow in the year. Thirdly, 2014 is a significant year for investment into our infrastructure business, particularly into the OFTOs, with us expecting to spend approximately £110 million, although this does depend a bit on the timing of financial closes.

We finished the year with no drawings against our committed facilities of £950 million.

Next Slide – Net Interest Cost

You will see that the net interest cost increased from £7 million last year to £16 million this year, with the key movements being the impact of 10 months' worth of the US private placement and just under one month of the convertible bond cost, totalling an additional £10 million of interest cost. The total P&L charge in 2014 for these will increase to £20 million, although as we noted at the time of the convertible, the cash cost is significantly less than the P&L charge.

Pension interest costs were £9m in the year, but will increase to £15 million in 2014, largely due to the increased deficit, which I will deal with on the next slide.

Next Slide – Pensions

We have a seen a further reduction of 0.45% in the real discount rate in 2013, which increases the accounting deficit. In addition, as I referred to earlier, the closure of the DB pension scheme to future accrual resulted in a non-cash curtailment charge of just over £50 million.

During the year we agreed a revised funding plan with the trustees, and the impact of this and the closing of the scheme to future accrual, means that company contributions into the DB schemes in 2014 will be c£55 million, down from the £82 million for 2013. Some of this reduction however will be offset by increased DC contributions.

Next Slide – Model guidance matters

Before I wrap up, I have mentioned a few things as I have gone along which are worth noting for your models.

We are expecting our Investment disposal profits to drop back to a more regular £40 million in 2014.

We will have increased interest costs next year due to the full year effect of the USPP and the Convertible bond.

The increase in the pension deficit we estimate will increase the Pension interest cost to £15 million.

I know each of you may use different rates in your models but remember given the size of our business in the US, and the related currencies in the Middle East and Hong Kong, we are sensitive to movements in FX rates to the tune of £0.8 million per cent.

Finally I haven't referred to tax before now, but based on current mix of profits and exchange rates we anticipate an underlying rate for 2014 down from 43% to 40% - remember this is on our non-JV profits.

There has been a lot to get through, so apologies, but we are now on the final slide.

Next Slide – Summary of 2013 Performance

Overall we were disappointed with the financial performance for the group in 2013 however, we do believe that the actions that we have taken in the last couple of years means that our businesses are better positioned to focus on emerging growth in some of our core UK and US markets.

During the year we have strengthened the balance sheet by diversifying our sources of funding away from pure bank debt and replacing it with longer maturity and fixed rate debt at favourable interest rates. We saw a reduced working capital outflow in 2013 and anticipate that to reduce the outflow further in 2014. Given the above, the Board is recommending a dividend in line with last year at 14.1p.

Now back to Andrew. Thank you.

2013 full-year results presentation script
6 March 2014
Operational review
Andrew McNaughton, CEO

Next Slide - Title Slide

Thank you Duncan.

Next Slide - Agenda

In my introduction earlier, I highlighted that while parts of the Group have performed well, there are two key areas that have led to the disappointing financial performance, and that's in our on-going business activities. These are our Australian Professional Services and UK Construction.

I would first like to take you through the work that we've done to address this underperformance, and then I will then spend some time on my near-term priorities and in particular the opportunities for Balfour Beatty in two important areas – those are construction and infrastructure investments.

Next Slide – Australian Professional Services

Our Professional Services business in Australia was affected by that well-documented downturn in the domestic mining and resource sectors that began in late 2012 and that accelerated in early 2013.

As Duncan has said in response to the slowing market in these sectors we took swift action to restructure the organisation and to reduce our operational costs by approximately 30%. Now you will recall from our half-year results presentation last August that this has had a significant impact on the financial performance that we projected in 2013. However, while the volume and pricing risks remain in Australia, we anticipate that the actions that we have taken will return the business, as Duncan said,to broadly break-even in 2014.

Next Slide – UK Construction Services

Turning to the UK Construction business, I announced at the end of April a forecast shortfall in the profitability of the UK Construction operations.

And whilst the difficult trading environment was a contributing factor, there is no doubt that the major reorganisation of our operations that were carried out in 2011 and 12 led to a significant reduction in our performance in the UK Regional Construction business and to a lesser extent, the buildings part of our major projects business.

At that time, I immediately took direct control of the UK operations and concluded a detailed review of over 1,000 on-going projects, we identified and wedealt with the root causes of the issues.

In June I appointed Nick Pollard as the CEO of our UK construction operations. We restructured and strengthened the management team both at the Divisional and operating unit level in the regional business. We've tightened key commercial practices in tendering, estimating and commercial governance, and at that time we closed regional operating units that had weak future prospects.

Since joining us Nick has restructured the major projects business and most recently made some changes in the Engineering Services business to address weaknesses that emerged right at the end of last year.

The necessary changes to address our performance shortfall are largely complete, and through 2014 our focus will be on delivering consistently.

The impact of the actions taken can be seen in the second half of 2013, and while we need to be wary of inflationary and supply chain pressures as we go forward, we expect to improve profitability in 2014.

Next Slide – Other strategic actions taken in 2013

In parallel, we have taken a number of positive steps across the Group to drive future efficiency and focus, in line with our forward strategy.

In March last year, I announced our intention to exit our Rail operations in mainland Europe and to examine the options for our UK FM business. We have made significant progress in this area, we have divested of three businesses and are engaged in advanced discussions on the disposal of our German Rail business. In addition we've divested of our interest in Exeter Airport.

And as you have heard from Duncan we have continued to make progress towards our cost reduction goals right the way across the Group, we have closed the UK Defined Benefits pension fund to future accrual and we have diversified our sources of funding away from pure bank debt with the US private placement and the convertible bond issue.

Next Slide – Focusing on our growth opportunities

Now as I have noted, many of our businesses enjoyed a relatively stable performance in 2013.

And in previous presentations I have paid particular attention to the stability and the strength of our Professional Services division, and in 2013 we again saw a good performance from

Professional Services outside of Australia. Our Support Services enjoyed good profit growth and Infrastructure Investments turned in an excellent performance.

Despite the issues it experienced last year, Construction Services offers an opportunity for profit growth in the short term, and there are an increasing number of business metrics that point to a recovery in our Construction markets.

So I would now like to run through the strategic actions that we have taken in our US Construction business over the last few years to position it for its next phase of growth.

Next Slide – US Construction Services

In 2007, we had a stated objective to diversify away from our UK dependency and exploit the large and for us, at that time, untapped building market in the US.

Since that time, we have pursued three strategic goals - strengthening our local footprint in the US, creating a national structure and broadening our sector capability, through a combination of organic growth and targeted acquisitions. The acquisition of our US construction business from Centex in 2007 gave us access to its established markets of Texas, North Carolina, Florida and Virginia. Since then further acquisitions have increased our footprint. In return, our customers work now with a delivery organisation offering a significantly broader national capability.

In 2011, we implemented a reorganisation of the business across the US. The aim was to consolidate the capability amassed through the acquisitions, to create a lean operating model and importantly, create an organisation with the capability and culture to share knowledge on a national basis.

To this end, we rationalised the business from five operating units into the three major regions that you see here on the screen.
Below this, we created a hub model that focuses on key cities that each demonstrate strong growth characteristics.

Finally we invested in the creation of a national capability centre to identify product and process innovation and to deploy knowledge and best practice across the whole of the business in the United States.

As a result of these changes, we now have a strong three division model with a broad coverage over that "southern smile" states, as illustrated on the slide, and it positions us really well for future growth.

More specifically, we have focused our business hubs in cities that are expected to have the strongest economic, population, and construction growth potential. If you note on the slide that we are located in 11 of the top 20 cities ranked by GDP, and in 12 of the top 20 cities ranked by McGraw Hill for expected building starts in 2014.

Next Slide – US Construction Services

Prior to the economic downturn, our building business in the States had two key areas of activity: private sector building and military housing. The strategic actions that we took from 2007 were geared to prepare the business to respond to the changing markets that were about to emerge and in particular we had sought to expand our capability in sectors such as healthcare, education, mission critical and multi-family housing units.

Now we believe that the actions we have taken have demonstrated positive results.

Entering the downturn, we saw a significant decrease in private sector contracts.
In parallel there was an implementation of the fiscal stimulus in the form of Federal building. Now we successfully combined our building capability with the relationships we've developed in the military housing sector to secure work in the Federal building programme and Duncan has shown you how the workload changed through that period.

As a result, our reduction in volume through this period was significantly less than that of the market.

Our acquisition of RT Dooley and HSW added new capabilities and customer relationships, and coupled with our existing scale, this has enabled us to move into the mission critical and technology industry sectors. Now these have directly contributed to the growth in our order book since it bottomed out in December 2012, and with our new order intake from the private sector overtaking the run-off in the public sector, again that Duncan showed you on the slides.

Now it is clear that our success throughout the economic downturn has been due to our ability to anticipate market change and to penetrate into markets. By the same token, our current success can be credited less to the general economic recovery and more to those actions that we have taken.

Houston is another great example of this. While it is certainly a 'hot' market, we consider that our growth, particularly in the major projects area in that city is due to market penetration, having only entered that region through acquisition in 2009.

The most recent example of the success of our model in 2013 is that in the student accommodation market.

This is a great example of the strength of the Group's market proposition when combining our Investments and our Construction capability. In the US this was a new entry position for us last year, into a market that has considerable growth potential in the future. I will come back to this shortly, but would use this as a further indication of market penetration ahead of the recovery.

Next Slide – Construction Services US : summary

We believe the work we have done in the US in recent years positions us well to take full advantage of the recovery that we are beginning to see in our markets. We are seeing evidence of this in Florida, in the Carolinas, in Washington DC and in California, and while it must still be regarded as tentative at this point, we become more and more confident each quarter.

The final part of any recovery of course is a broad improvement in margins. There is no doubt that we have seen a reduction in both volumes and margins since 2009, and while volumes are already starting to recover, it is worth sounding some caution that it might not be until early 2015 before we see a broad recovery in bid margins and a further lag still before this flows through into our earnings.

The exact point at which this occurs is difficult to predict. The key point is that it is now about timing, as we believe we are delivering on a strong strategy to position us well for the future. For now, the focus of the management team on acquiring high quality work, often in combination with our Investments business and through the consistent deployment of best practice processes and innovation, and this will lead to an increase in the outturn profitability of the US business.

Next Slide – UK Construction Services

Returning briefly to the UK Construction business, I have previously commented that the UK will come out of the economic downturn some 12-18 months after the US. The general mood of optimism across the UK economy is, however, very encouraging and there is certainly evidence of increased activity in early cycle industries.

As we know there is increased activity in the housing sector and we are benefitting from this, not only directly through our activity in this market, but through the associated infrastructure and local building opportunities that we are seeing in the regional business. However, it will still take some time for this increased activity to flow through into general construction.

It is clear that the drive for growth in the UK will be experienced through our regional business. The actions we took last year, through change in leadership, the rationalisation of the regional units and the increased governance and discipline, will ensure that the UK business has the same flexibility and agility as it does in the US to take full advantage of the recovery.

Next Slide – Infrastructure Investments

We have mentioned our Investment capability several times this morning and I would like to just take a few moments to focus on this business and its pivotal role in generating value for the Group.

On many occasions we have characterised the Investments business in terms of the portfolio of assets and indeed the valuation of that portfolio. However, this descriptor significantly underplays the unique capability of the Investments business to drive activity for other parts of the Group.

From its inception in the UK, the Investments business has demonstrated a sustained 15 year success in the Private Finance Initiative and PPP Public Private Partnerships market and this success in which we have established a leading position in the roads, hospitals and schools sectors. The utilisation of the capital of Balfour Beatty during this time has generated in excess of £4.5bn of construction and operational maintenance activity in the UK that may not otherwise have been available to the Group.

More recently, we have taken leading positions in student accommodation and offshore power transmission, and entered the power and waste markets.

Our US business has historically focused on Military Housing. Over the last five years we have generated more than $2bn of construction activity through these concessions and currently own and manage over 42,000 military homes. We also estimate that over the remaining life of the concessions, a further $4bn will be delivered through our construction business, none of which is currently captured in our forward order book.

Building on our established position in the student accommodation in the UK, we have now successfully entered this market in the United States. With over 4,000 universities or similar educational facilities across the US in need of accommodation, we can see significant future opportunity in this market for our business. It is a proposition which incorporates finance, construction delivery and on-going management services.

Clearly, there are further market adjacencies in the US, and the delivery of multi-family housing units in the private rental sector is of particular interest for us and for our investment partners.

Next Slide – Infrastructure Investments

In 2010, we announced a change to our previous strategy relating to the asset portfolio, where our focus up to that point had been building the portfolio. Since then, we have been actively managing the portfolio, utilising the value gained as capital to reinvest in new asset opportunities, maintaining both the strength of the portfolio and providing further construction opportunities.

In the period since the change of strategy, we have generated disposal proceeds of £240m and received a further £233m in cash distributions from the portfolio. However, we have also reinvested £149m of this money back into new and existing projects.

This has maintained the strength of the portfolio for future growth, and consequently we have seen the portfolio valuation increase by a further £419m over and above the equity investment, through operational improvements and discount unwind.

Our success is providing real opportunities, even through a prolonged economic downturn, to invest behind the Group's future. In 2014, as Duncan pointed out earlier, we expect to invest approximately £110m into our Investments business.

With a strong future pipeline and access to emerging asset classes seeking private investment, the combination of our Investments with other parts of the Group, and particularly with our mature construction businesses, offers a key differentiator in the industry and will support our strategy for growth.

Next Slide – Infrastructure Investments

To explain the multiple benefits that the Group gains through investment-led activity and the ability to transfer knowledge, I would like to take you briefly through two case studies – that's our work on the M25 in the UK and on the Children's & Women's Hospital in British Columbia, Canada.

As many of you know, in 2009 we became a 40% partner in Connect Plus, securing the 30 year concession for the management and upgrade of the M25.

To date this project has generated over £600m in revenue for our construction business.
As the operator of the M25, Connect Plus generates income through an annual fee which is used to finance the activities of maintenance and lifecycle. For the first time, the M25 has been freed from the constraints of public sector annual budget cycle, allowing us to plan activity across the life of the concession, to introduce product and process innovation and to realise the benefits that enhanced quality and efficiency bring.

In parallel, we are also a 52.5% partner in Connect Plus Services, that's the vehicle contracted to provide maintenance and lifecycle renewal on the whole of the M25 and it's worth £900m to our Support Services division over the duration of the concession.

Moving on to our second example, Balfour Beatty has become a leader in the healthcare PPP market in the UK. Coupled with substantial experience in the construction of major hospital facilities in the US, we have transferred these skills to leverage opportunities in adjacent markets such as Canada.

In early 2014 we announced our preferred bidder position for the Children's & Women's Hospital in British Columbia.

The C$350 million Canadian hospital (it's a redevelopment of this hospital) is our first PPP award in Canada and in keeping with the model that I have outlined this morning, we will act as an investor, a constructor and a maintenance provider. In the case of maintenance, we are in a Joint Venture with a local provider. This gives us a market entry opportunity and an excellent platform on which to build our position in the Canadian PPP market. We have already been approached by potential partners on future similar opportunities.

Next Slide – Summary

During 2013, my focus has been on the actions necessary to address the impacts of the market conditions and the root causes of our underperformance in the UK, both of which have driven this year's disappointing financial performance.

In equal measure, I have implemented actions such as strategic portfolio change, debt rebalancing and measures to maintain momentum on our efficiency and cost reduction programmes.

All of these will prepare us to take full advantage of the anticipated recovery across our core home markets.

In 2014 my priorities will be geared towards maximising the performance of our businesses across the group, and in particular those parts with the potential to deliver strong growth in the short term. The recovery in both the US, and progressively in the UK, provides us with significant opportunity.

Consistent delivery of high quality performance combined with deeper market penetration across construction sectors will enable us to grow from our current position.

The combination of our Investment and our Construction businesses has created a differentiation and a strength for the Group. I will continue to drive this model forward, particularly in the US and into markets such as Canada.

Having shown in 2013 that we can generate the capital to reinvest, I intend to continue to actively manage our portfolio of assets and businesses in order to drive value from reinvestment opportunities.

We are seeing increasing evidence of improving conditions in a number of key markets. As you have heard from both Duncan and from I today, the long cycle of our business means that these will take time to feed through fully in terms of financial performance.

However, we are positioned for economic recovery in our core infrastructure markets around the world.

These growth opportunities and our increasing strength allows us to look beyond 14 with confidence.

Thank you.

Duncan and I will now take any questions that you have.