Balfour Beatty 2013 full-year results

Q&A transcript

6 March 2014

Gregor Kuglitsch, UBS
Hi, I've got four questions. The first question is on Australia, could you quantify the revenues and loss that you generated in 2013? The second question is on the US, this is your Construction business, if you could just split out for us, which I suspect the UK was in last, but sort of the underlying margin in the US - obviously you're still saying short term they are depressed and where you think they can normalise given your mix of business once the bid margins do improve, say two or three years down the line?

Then the final question - there's actually only three questions, it's just on the PPP portfolio, can you just split out on the operational and inflationary gain which is obviously significant at 70 million plus, how much of that is operational and how much we can think about that particular number moving forward, or whether that was more of a one off in nature? Thank you.

. . . .

Duncan Magrath, Chief Financial Officer
Sounds like three for me, in terms of Australia by the end of the year we're sort of running at roundabout a US $300m type of revenue base, which is, as I said 30% down from where we were before. It lost just over £10m in 2013.

In terms of the US, the underlying margin, bearing in mind we've got the building business out there and the civil business, the majority - by far and away the bulk of it is the building business, which is the business that's growing quickest. And that's still just under a sub 1% type business and that dominates that margin. The civil business will tip in and out which will benefit that because obviously it's generally a higher margin business, so that will flex that margin.

So we should see a slight improvement in margins in 2014 in the US business because of that. It's more around the timing of civil projects than it is around a recovery in the building market. As Andrew said basically the recovery at the moment is volume driven rather than margin driven in the US.

The final one on the PPP portfolio, it's largely inflation driven, you can probably split it - most of it's in the UK. And perhaps I'll just explain, essentially the inflation - we don't uplift the portfolio for inflation during the construction period, so you can get a number of years' worth of inflation that come through at the end of construction when the asset is finished. And therefore there is a number of years' worth of inflation increase within that number, so it's definitely not an annual repeatable number. And the US component, which is about 35% of it relates actually to the rises that we get in the housing, military housing, and there is again in that case because of the timing of the awards there's a couple of years' worth in there as well. So don't factor the 74 million in again next year.

. . . .

Gregor Kuglitsch, UBS
Then just a follow up on the US margins, obviously now sub 1%, where do you see that sort of heading - normalised, once it recovers; I mean was it ever a 2% margin business, or are we sort of seeing the 1.5% kind of level?

. . . .

Duncan Magrath, Chief Financial Officer
I think across the industry in the building business, again I'll stick with the building business, I mean a normal margin would be a 1.5% margin. At its peak when we had some of those very large projects three years ago we were above that, but probably a sensible margin to obtain for them over the short term would be 1.5%, sorry medium term rather than short term.

. . . .

Gregor Kuglitsch, UBS
Thank you.

. . . .

Howard Seymour, Numis Securities
Two parts please, can I just start on the UK Construction and really just the timing of the 10 million, it wasn't alluded to in the IMS in January, so I suppose there's three aspects; one when did this happen? Two, can you sort of breakdown how much of the £10m is things like rationalisation costs that you put in as opposed to issues on projects? And three quite open ended, what's to stop this happening again if it's just come up at the end of the year and you didn't talk about it prior to that, you know in November, etc, so the issue on that, that’s the first part?

. . . .

Duncan Magrath, Chief Financial Officer
I mean it was towards the - the Engineering Services business as I said was starting to get weaker in Q4 and it did finish the year - it had - that's the business that has more effectively win and do work in it, so there was an element that was volume, but there was an element of underperformance.

I think in terms of the building business it was having a good scrub of some of the year end projects contributed to some of that in terms of that write down. So they were towards the end and obviously we wanted to make sure we got those right.

In terms of rationalisation that's nothing in there, that is basically contract performance.

. . . .

Andrew McNaughton, Chief Executive Officer
And the third part was how do we know we've got it all? Well we've been through - as we did in April in the Engineering Service business as we examined the weakness that was emerging in quarter four last year we spent a considerable time going through the contracts that were in the book. Clearly a lot of the contracts that we had were awarded

at a time - the Engineering Services business is a subcontract market, and you've heard many people in the industry talk about the pressures on subcontractors and in fact we have talked about in the early part of last year. So we've seen that emerging into the subcontract business.

Having looked right through the portfolio we've examined all these businesses at the year end and the 10 million is a good position as to where we are having looked right the way across the portfolio and the book.

So having made our assessment in April, having finally reviewed the Engineering Services piece at the end of the year that is the number that has emerged and that we've taken account of in 2013 and we believe we'll grow and we'll be strong from 2014 onwards.

. . . .

Howard Seymour, Numis Securities
Thank you. The second part really was on investments, I know you don't do it any more but historically you gave out a sort of equity investment and committed in the investments, and given we're talking big numbers, you know 110 million this year, where are we at the end of the year in terms of how much equity you have invested if possible and how much you've still got to invest, not just this year but going forward in that business?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, it's in the back of the accounts when it's published, off the top of my head the 110 just to be clear comprises things like the OFTOs, which have - they actually have quite a big commitment on financial close, unlike most of ours where it comes in at the end, there's an element of the future investment that we're doing in the fund and there's also the element of investment in things like, for instance in the US some of the accommodation projects, again where we're investing during construction rather than at the end.

In terms of sort of the overall figures, if you went back in time it's roughly 550 million we've invested in the past, of which 420 is still sort of invested; obviously we've disposed of some of those assets. The future commitment beyond - I mean 2014 is a particularly heavy year, having said that we clearly want to win more, so predicting exactly what it would be beyond that, the commitment today as it were drops off reasonably quickly beyond 2014, but - obviously it will be more, there will be further commitments going forwards. But I can get you the details numbers later it's at the back of the account.

. . . .

Andrew Nussey, Peel Hunt
Good morning, I guess kind of following on from Howard's question can you assure us that sort of every contract in UK Construction has gone through some form of forensic review and really we shouldn't expect any more issues?

And secondly anything that you can give us comfort on the ability of UK Construction to win work going forward given all the internal focus that the business has gone through?

. . . .

Andrew McNaughton, Chief Executive Officer
I can give you that assurance and if you'd like to have a word with Nick who is in the room afterwards that you can get that personal assurance. But I can give you that assurance that each of the contracts has not only had a rigorous review, they have rigorous reviews on a monthly basis. And it's certainly taken a huge amount of effort from Nick to ensure that is being done and carried out.

As far as winning work is concerned, when we look at our numbers for this year, actually going through 2013 even with the sort of increased focus that we've put on the UK Construction business it hasn't detracted from our ability to secure work. I mean if you look into the trade press you'll see where we ended up the year in 2013 as far a winning work on a competitive basis in the UK market. We're seeing our input per tender margins improve and we're currently sitting - with a win rate somewhat better than one in four across our regional business at the moment. So that's by value.

So as far as I can see we're moving certainly very quickly back into the position that we were previously. So we're not seeing a drop off in discipline in the bidding, we're seeing the bid input margins improving and we're seeing secured workload at the level we'd anticipated and in some areas above.

. . . .

Andrew Gibb, Investec
Morning, five from me. Professional Services, I think you've previously talked about a sort of 7% margin as a sort of realistic target, should we still be thinking that that is a reasonable medium term objective? Secondly, any significant exceptional items we should be thinking about in FY'14? Thirdly just on working capital you obviously had a good year end, was there anything specific in that, should we expect any reversals going into '14?

Then just on the PPP disposals, you obviously - you know 80 million this year, looking to revert back to 40 million. I'm just curious on that given demand for the secondary market is high, clearly it's a big boost to the P&L, the cash flow and ultimately shareholders, why you would look to halve that given the opportunity out there is still there? I think Andrew you talked about short wins in terms of your focus can you just maybe flesh out what those might be?

. . . .

Duncan Magrath, Chief Financial Officer
In terms of the Professional Services margins I think we talked about 6 to 7%, I know people always remember the high number, but there was definitely a 6 at the front of that statement. I think realistically in the short term when we've got sort of $300m worth of revenue in Australia at breakeven, we've got actually a UK business that's

more, as I said, is more stable, but is not at those levels of margins, that's going to drag down the margin across the whole of the Professional Services business.

The margins elsewhere are in line with what we would expect and indeed performing very well and particularly - I mean they do vary by region, for instance they're doing well in Asia, they're doing well in the core transportation business. So I think there's no reason particularly to change the ultimate target at the moment, but that would require - you would have seen in my slide, I mean Australia was at 8 to 9%, so it was a higher contributor to the mix. If for some reason Australia is never going to get back to that level then that might change the view.

So the second question was in terms of significant exceptionals in FY'14, there's about - we're still - we talk in the statement about extending some of the activity in the shared service centre, there is still a bit more to go in terms of the rollout, but I would expect the total number to be less than 10 million in 2014.

The other thing - we obviously won't have things like the pension curtailment charge. The other thing I would highlight is clearly we've got the German rail disposal to get through, I mean that could create a positive or a negative depending on where we end up in terms of the sale proceeds. But it should be limited to those two.

The third one was - working capital, no there was nothing particularly in there. I think during Q4, we talked I think at the IMS in November, in the UK we had a build-up in working capital in the Support Services contract and that resolved itself very well towards the end of the year, so that gave us a boost compared with that position. We don't expect that to deteriorate again, so that shouldn't unwind again as it were. We also had some delayed payments in the US in terms of Professional Services in some of the clients out there and that came in as well in December. So those contributed to the performance.

You know it does vary around, it does depend on mix of business, but there's nothing particularly in there that was unusual.

PPP disposals, I think from our perspective I think where we believe we've been successful is choosing the right assets, at the right times in the market and choosing assets with particular characteristics that are attractive. So I think we have continued to generate, as I said, you know gains way above, certainly in this year above even the directors' valuation.

I think we will continue to be selective and sell those which we think we can get a very good price for, rather than just a wholesale sale at the moment. So I think it will be slightly opportunistic depending on what's available, what's at the right phase in the cycle and what's the market looking like. But we think it's sensible to try and bring it back down to a more sustainable level would be my view.

. . . .

Andrew McNaughton, Chief Executive Officer
I'll just add a final bit on to that particular piece as well. I mean there is good evidence that the appetite that you refer to is not changing. The market class - there's strong bias for it. What we want to do is we actually are able to, in bundling the assets the way we are we're able to attract good competition and we've seen new entrants into that competition in the last year.

As Duncan said, you know, we're looking to reinvest that back into the new pipeline, and this will sort of lead me into your last question. And so what we're demonstrated, I think you can see from 2013 what we've demonstrated is the ability to have a flexibility in that portfolio. These are fairly liquid assets that we can move when we can see that the success in the pipeline and the need for reinvestment at a particular point in time.

So what we're doing is in a proper way managing the balance between the operational income that we get from those assets into what we see the future input returns that we'd like to get for new assets. So we're using that portfolio as exactly as what it is.

If I take your point about the sort of forthcoming winds, you may have picked up we've recently become preferred bidder on the Ayrshire and Arran hospital, so that's building again on our hospital capability here in the UK.

We've got two or three biomass plants that we're working on, particularly as a developer model, rather than bidding in the open market. And I'll just touch on that, that's something you'll see when we've talked about moving into the waste and into the energy sector. Many of those are now not in the traditional form that you'd see in terms of PPP, or PFI bids, but more of us acting further at the front end as a developer in developing our own schemes with investment partners.

We've also got a further bid in at the moment for a hospital in Vancouver, which we're waiting to hear on. And we've also got some student accommodation, a new entrant for us again, student accommodation in Australia which we're bidding on as well. And we mentioned student accommodation in the United States and there's a series, a pipeline of those that we're working on. As I say there's 4,000 academic institutions who are looking for student accommodation and the follow on from that is also academic buildings and further facilities at universities. We've already had experience through one of our PPP programmes of building a sport stadium in association with that. So you can see these open up really interesting markets for us to act as an investor and a constructor.

. . . .

Mark Howson, Canaccord
A number of questions if I may to follow the trend. Firstly just on the UK, I'm just trying to think in my mind, there's obviously Engineering Services, civil, and the regional construction business, the Engineering and Construction business is that - are you talking about that's going to lose £10m in '14, or is it £10m of variance versus budget, to be clear?

. . . .

Duncan Magrath, Chief Financial Officer
No so the comment was - back in April we said we were going to lose - the profit reduction would be £50m and we upped that to £60m for 2013, so it was a backward looking comment.

. . . .

Mark Howson, Canaccord
So that was total UK Construction, because I thought most of that was regional building at the time rather than …?

. . . .

Duncan Magrath, Chief Financial Officer
Correct, so what I said was when we announced the £50m it was largely regional with a bit of majors, and actually in terms of the extra 10 it didn't come from regional it came from the major building and the Engineering Services business, the regional was in line with what we said, but that was all a 2013 comment, not a comment on 2014.

. . . .

Mark Howson, Canaccord
Just going forward how profitable will the regional business be, I mean is it running at breakeven in '14?

. . . .

Duncan Magrath, Chief Financial Officer
I think I've managed to confuse people with margin comments before in terms of the UK Construction; Howard is smiling because I definitely confused Howard. If I do it at a post overhead allocation level then across the UK Construction business we'll be getting close to a 1% margin for 2014.

. . . .

Mark Howson, Canaccord
And secondly from me, any impact from the Department of Defence cuts in the US in terms of what you're doing on US bases, etc?

. . . .

Andrew McNaughton, Chief Executive Officer
If I pick up on that one, with troops returning to the US there is no doubt there is going to be a rationalisation of the military capability in the United States. However, when we examine our portfolio, we've already gone through a BRAC process which is a base realignment process in the first phase.

The bases that we've secured are those that are being invested in, and so therefore our first line of protection if you like is that they are those that are most likely to be retained by the military. And they have fairly substantial investments that they've made into the military accommodation on those bases.

As a second line if you like, if that was to be a problem the process that we have and the back office that we have these are third party rented property. And so we rent these to the military families. The areas where most of those bases are also have extensive requirements for third party rental in the private sector. So even if there was to be some reduction in the capacity from the Department of Defence we believe we're insulated from that simply through the increasing requirement, and we can see it already in the United States, hence my reference to multifamily units, there is a distinct shortage in the United States now of third party rental accommodation and these are high quality homes.

. . . .

Mark Howson, Canaccord
And just the last two from me, you're bidding on hospitals in Vancouver and other things in Canada, can you just talk about what you're doing in terms of the actual asset delivery there, I mean obviously you got someone else to build that for you, I don't think you have much of an asset delivery presence in those markets? And secondly a correction from me, Australia, sorry did I hear that you said that it lost £10m in 2013, just a factual thing?

. . . .

Duncan Magrath, Chief Financial Officer
Yes, to the Australia comment, just over.

. . . .

Andrew McNaughton, Chief Executive Officer
If I pick up on the delivery, the delivery of the hospital that we've secured is in a joint venture with a local Canadian company, but the joint venture from our side is our US Construction business. Don't forget in the last two or three years we made an acquisition of HSW in the North of the United States and that already had a positioning ready to move into Canada. So we'll be using our US resource, Construction resource to build.

We've also - I mentioned about the operations and maintenance, so our well established communities business that services the military housing, that will be the joint venture provider for the maintenance and the operations in the Hospital in Canada.

. . . .

Stephen Rawlinson, Whitman Howard
Could I ask questions in two particular areas, I mean firstly with regard to the cost reduction programmes, you've got a slide there that said you had the £80m target, to which I think that some of us will recall from the last couple of years before it was sort of 30 and then you had a 50, but you've got 70. Can I ask two questions there, I mean are there any more cost reduction programmes you've got in place because you don't seem to be sort of taking that to the next stage and adding to it?

And secondly with regard to Australia where you said earlier that you cut 70 million of cost out there, is there any overlap between the two 70 million that I'm seeing on the slides? And I've some other questions as well.

. . . .

Duncan Magrath, Chief Financial Officer

The overlap no, they're completely separate numbers, they happen to be the same numerically, but no Australia is completely separate. Basically that was - we didn't plan to do that that was a reaction to the market and we did it in the current year, so that was Australia.

In terms of the - no plans to extend, I actually what we have done over the years is we started - I guess if you take a step back we started in the UK announcing the creation of a shared service centre, we announced it in 2010, it was originally only accounting and payroll, it's moved in over the last year HR and IT have gone in there and it's spread across the whole of the UK business. So it has been start up, progressively add more in, and that's why the programme has carried on.

At the same time of course for the first time this year we set up a shared service centre in Lancaster Pennsylvania; so moved around about 170 roles out of Manhattan to Lancaster Pennsylvania. And again that's on the back of some of the learnings that we had in the UK and that's been very successful as well. So I think it was start with one place, build out in terms of scope and across the business, and we've then put it into the US.

. . . .

Stephen Rawlinson, Whitman Howard

So the thought process is what, that you can kick on from the 80 that you identified two or three years ago and do more, or is that where we could expect to see on 2014 on a 2011 base?

. . . .

Duncan Magrath, Chief Financial Officer

Yeah, I think from where - as I said there's a bit more - things that are currently in train in terms of progression, so things like the IT shared services is not yet finished so that rolls out during the year. And that's why when I said we're on track for 80 million and we delivered 70 in 2013 there will be some extra benefit coming through in the future.

In terms of - do we then do something else again, there are currently no plans, but as you'd expect we'd always keep our cost base under review at all times.

. . . .

Stephen Rawlinson, Whitman Howard

Can I ask some questions in and around the Support Services piece which sort of wasn't focused on in what Andy had to say, just a number of things there I mean in the text you refer to water being a growth sector, but later in the text you say that actually it will be 100 million less this year than last. The other question around that is that you talk about a settlement in the water industry; can you just outline the size and scale of what that might be on what the impact could be on that going forward?

And thirdly could you actually help us a little bit on the National Grid contract which clearly may have helped with the growth in Support Services last year and certainly you alluded to it helping with the working capital, as what percentage of the total of the turnover of Support Services that comprises and how far through the 1.1 billion contract you actually now are?

. . . .

Duncan Magrath, Chief Financial Officer
Water basically I was talking about through the overall cycle, and clearly what we're going to be doing is bidding into the AMP6 now, we've obviously got a good position already with Thames that not in the order book, a small amount of it is but the full contract isn't. The 100 million reduction wasn't water it was in relation to power transmission, so it was power. So I don't think there's any inconsistency in the statement between those two. So the water has got growth coming forwards in terms of the order intake.

In terms of the National Grid contract it started in the middle of the year and it runs for eight years. So in its first year it has gone very well, sorry I'm struggling to remember all your other questions.

. . . .

Stephen Rawlinson, Whitman Howard
I just wanted to understand that one a little bit better. But on the power sector you say in the text that it's a growth sector and then you say later on that it's going to be a 100 million less, I want to try and square in my own mind as to when we might see that growth come through?

. . . .

Andrew McNaughton, Chief Executive Officer
Yes and in the medium to long term those are fluctuations that we're seeing in that framework contract from National Grid. So as they're aligning their spend to their regulatory requirements we are seeing individual in year fluctuations if you see what I means as to those. But they're projecting growth back again from 2016 and beyond. And that's well still within the contract period that we have with them, both for gas and for overhead power.

. . . .

Stephen Rawlinson, Whitman Howard
And if I could have one more if you don't mind while I've got the microphone. And with regard to the phraseology that you used this time and you used about a year ago with regard to planning, estimating and commercial governance, when do you expect that to be in the position where you would want it to be? Because the indication here is that

you actually haven't got that quite right yet and therefore you'd like to do more work on it.

. . . .

Andrew McNaughton, Chief Executive Officer
I think if I'm brutally honest with you we want to do more on it because what I want to see is absolute consistency across the business. We've got a portfolio of more than 2,000 projects underway at any one time and as I said during my statement earlier last year that we've found that somewhere between 100 to 150 projects were not in a place where we'd want them to be. That doesn't mean to say they were loss making but they weren't where we'd want them to be. So that gives you an indication.

You know we're beating ourselves up because we don't believe that we've got those processes, you know, on a consistent basis right the way across the organisation and to the highest quality that we'd want to see on every single contract. So we are going to keep working at that until we have every single one of them in that place.

. . . .

Marcin Wojtal, Bank of America
I also have a question on Support Services, your guiding margins to be down in Support Services, could you be perhaps a little bit more specific on that and also should that margin reduction be only temporary in 2014, or it's more structural?

. . . .

Duncan Magrath, Chief Financial Officer
I think from our perspective we delivered a particularly strong performance from a margin perspective in 2013 on the Support Services margin. If you go back to 2012 we were at - I think 2.6% and we were 4.3% in '13. I mean we will be down from the '13 again for a couple of reasons, one is we have the closure of the rail renewals contract where there's some costs associated with it, so that should be only a one year effect and that has about - that would impact the margin by about .2, .3% and the rest is mix of business where for instance some of the power work is better margin than the rest of the division.

So we'll see a drop in '14, but I don't see any reason why the margin shouldn't then increase a bit in '15. I think overall it does depend on the balance of the business and there are different margins within that. But it should go up again in '15.

. . . .

Joe Brent, Liberum Capital
Good morning, you talk about the 60 million construction hit in 2013, from memory that relates to about a hundred contracts which were problematic. Can you give us some indication of where that number goes in 2014; presumably it doesn't go to zero?

. . . .

Duncan Magrath, Chief Financial Officer
I think it's difficult to be precise around that because you know some of that - well a lot of - well it all was a change in expectation on our work, how much of that is poor performance, how much of that is market related is quite difficult. So things which were part of that were - I think we've talked about them a number of times as part of that is related to for instance poor subcontractor performance - you can't completely eliminate that, you're going to get those things potentially happening again. Some of it can be due to other delays etc that cause that.

So you're not suddenly going to necessarily go straight back, so from our perspective you don't automatically see a whole 60 million come back. Bearing in mind the additional 10 million we talked about, some of that again is market related because it relates to I think a particularly difficult market in the M&E business at the moment. So recovery of that, yes - more than half but not all of it.

. . . .

Joe Brent, Liberum Capital
Thank you. And you gave us some indication on the regional construction margin post overhead recovery in the UK; could you give us some similar figures for the major projects work and also the civil business?

. . . .

Duncan Magrath, Chief Financial Officer
That was actually a blended margin across the whole of UK Construction I talked about, so it incorporates the regional business, it incorporates the major projects for instance in the current year, we're planning - you know that’s the sort of business where you can spend quite a bit of money bidding now for future projects as well. So there is a blend across that. But ultimately generally the regional business will be lower margin than the major projects as long as you're in a world in which - you have got a lot of projects on the go and that outweighs the bidding costs that you've got.

. . . .

Joe Brent, Liberum Capital
Is it sort of .8, 1.5% is that the sort of spread between regional and major projects?

. . . .

Duncan Magrath, Chief Financial Officer
I mean the spread can be bigger than that, depending on whether you look at individual contracts and how you split it up. So I'm not sure I would give a range on that, I think it's probably just easier to stick with the blended margin. We can talk through the characteristics of the different projects later. I mean they will vary project to project it depends on the risk profile of course as well in relation to those projects.

But broadly probably infrastructure you can get some of the better margins, building at the moment we think in the major projects world is pretty tight in terms of what the market will allow. The Engineering Services is very challenging and the regional business as Andrew said is improving. So - if that gives you a flavour of the direction of travel.

. . . .

Mark Howson, Canaccord
Just before this meeting we obviously had a presentation from Atkins - particularly focused on rail, highlighting some big projects, Doha Metro Gold Line, 2.6 billion; another one in Doha Metro Depot, you know 5 billion, Lusail you know the list went on, you know Jeddah Metro in a couple of years' time. Can you just talk about what is your strategy with regards to rail these days, obviously you're selling the German rail business, you're pulling out of rail renewals in the UK. Are you going to be going for some of these opportunities, is that going to be Parsons Brinckerhoff led, or what is the size of your rail business today as it stands and where is it going to go?

. . . .

Andrew McNaughton, Chief Executive Officer
Well we've talked about our rail business over many years, if I take several pieces that you've got in there. First of all rail remains an important part of our business, we're moving and as we've already indicated at the end of last year we will not be pursuing further rail renewals work in the UK, simply because we're moving our business more towards the technology side of the market.

Rail remains an important part of us through the electrification piece that we have in the UK and we still are Network Rail's largest supplier here in the UK and we will still continue to pursue that.

If we take some of the projects that you've outlined there in the Middle East, they're absolutely known to us, we're already the programme manager for Qatar Rail, we're already the programme manager on Makkah Metro through Parsons Brinckerhoff. We're already in discussions, in the same way as Atkins is, on Jeddah and also we're looking at Kuwait Metro as well. So those are being absolutely led by our Professional Services business because that's where we see the key skills in those markets.

We don't see ourselves going to deploy characteristics like installation of track in the Middle East because there are organisations that are far closer to that region who have the cost base models that can deliver into that market.

If we go to Australia we're already implementing projects, I mean Melbourne Rail, with the combination of our downstream rail activity and Parsons Brinckerhoff and we're currently sitting and we've been shortlisted as a bidder on Sidney Light Rail, again. And that's interesting in itself in that's a PPP project, where going back to my comment earlier we'll be acting as an investor, a constructor and also a designer of Sidney Metro, a follow on to that will be Perth Metro as well. And I've ignored all the activity in the United States.

So as far as I'm concerned the rail part of our business and transportation it's a core part of what we do. What we've been doing over the last few years and particularly through last year is identifying those areas where we don't believe that as an organisation we can bring the best of our skills to bear, and particularly I refer to that in Mainland Europe where we're exiting.

. . . .

Duncan Magrath, Chief Financial Officer
And in terms of rail renewals we're still obviously working for London Underground.

. . . .

Mark Howson, Canaccord
Just to pin you down on a figure, the percentage of Group revenues which are coming from rail in total worldwide?

. . . .

Duncan Magrath, Chief Financial Officer
Worldwide would be - about 8, 9%.

. . . .

Mark Howson, Canaccord
Thanks.

. . . .

Toby Schogger, Bank of America
Just following on from any cost reduction programme questions, you've seen the deterioration in the Australian business and expect to breakeven in 2014. How flexible do you remain in the area in terms of market share to either take advantage of an uptick or maybe even a further downturn?

. . . .

Duncan Magrath, Chief Financial Officer
It's probably worth - you know the Professional Service business is basically people and property. So in terms of property for instance we have downsized, part of the 20 million one off I talked about was effectively providing for some vacant property which we're in the process of disposing of, in fact we've got rid of some of it.

In terms of people the thing you've got to bear in mind is what we sell is people, so you know you actually want to encourage - we need the work and we want to encourage people into the business, we'd rather be growing the workforce frankly.

So in terms of flexibility we'll see what's ahead of us in terms of the market and the market is shifting, clearly there's less work in the resources sector, the new government has come in talking about investment into infrastructure, I've heard that somewhere before, but they seem to be possibly doing something about it. And so you know in transportation there are some things coming out. So I think you know it's not all doom and gloom in Australia, but we think we've right sized it, we'd love to be growing it going forwards.

. . . .

Unknown
Just jumping in there at the end, following on from Joe's question really on the differential between sort of major projects and regional construction margin; you've helpfully given us a mix in terms of revenue and the way that sort of regional construction is increasing as a proportion. I appreciate it's early but if we look out now from sort of the trends in terms of bidding at the moment to sort of '15 and '16, what does that mean, should we be thinking about regional construction continuing to be a bigger proportion and therefore sort of recovered construction margins how do we think about them in the context of history? Is it fair to think that we can get back near there, or is it actually we're sort of structurally lower because major construction projects don't look to be coming back any time soon?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, I think I would suspect if I did that donut in terms of showing the proportion in the region it would probably be higher again in '15 I would suspect. And that will have an effect on the mix hopefully in '16 we would start seeing the major projects coming back in terms of proportion.

. . . .

Andrew McNaughton, Chief Executive Officer
Any final questions? Okay ladies and gentlemen thank you very much for your time today and clearly if you've got any follow up questions then we're happy to take them off line from here. Thank you very much.

. . . .

END