Balfour Beatty 2013 half-year results

Q&A transcript

14 August 2013

Manu Rimpela, Deutsche Bank
Three questions from me. Firstly on the directors' valuation - so why won't you consider changing the discount rate to what you're actually achieving for those disposals? And also can you just - in case you have a further understanding of what has been the main differentiator in the buyers' assumptions compared to your assumptions that would be helpful?

Secondly, on the Professional Services, you mentioned that there's a contract dispute that's going to generate some favourable gains in the second half of the year, can you give us a bit of an understanding of how much that would be? And also do I understand it correctly that we shouldn't assume the benefit from a potential favourable contract dispute in the 2014 numbers, so basically that should be less profit in 2014?

And then in terms of the balance sheet, if you can give us a bit more guidance on the disposals, how much do you expect to get cash in flow from all the receipts, and also is your dividend policy in any way linked to those disposals in the second half of the year? Thank you.

Duncan Magrath, Chief Financial Officer
I make that four. Shall I go? Directors' valuation, I guess we keep emphasising that we have a portfolio with a range of maturities in there, clearly in terms of the churning process we're going through we are selling the more mature assets and therefore they will inevitably attract a gain over the average of the discount rate used across the portfolio.

Having said that, we still think it's conservative. It's something we keep under review. I think if you keep moving the discount rate up and down you'd probably be sitting there asking me why am I moving the discount rate up and down. And I think there's an advantage in just seeing the steady progression in the value through the disposals, but it's something we keep under review.

I think in terms of why may there be a difference between our assumptions and buyers, it's simply around their view of cash flow and our view of cash flow and to a certain extent that can be around our assumptions are often reasonably conservative on things like lifecycle cost. And if a buyer wishes to assume that lifecycle costs may be less then effectively their cash flows would increase and they'd be assessing it on a different discount rate to us.

I think in terms of Professional Services, you're right, I mean it's a one off settlement that we expect to get in Q4 this year and I said we would update the people on it in November. In terms of the balance sheet and in terms of the disposals I think when we announced Workplace last week we talked about the 190 being at least a net 150 returned to us in terms of cash. There are things like pensions and working capital things that need to be worked through. But that would be at least 150.

In terms of the Rail disposals, there's a net - the net assets there for those businesses is around - well it's £39m at June, so I'd be hoping to get net asset value at least.

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Gregor Kuglitsch, UBS
A few questions, can I just get an update on the cash, you gave I think guidance of 350, I guess you've had to knock of 150 roughly for the FM, can you just give us a steer on where you see the average working out in the second half so we get an underlying picture?

Secondly can you just update us on is this now the new run rate on the pension cash cost, the contribution has obviously stepped up from the previous triennial evaluation? And then maybe I can press you again on the Professional Services just so we have a sort of rough idea. Because I think you're sort of saying you think you can end up being flat in terms of EBIT, maybe down a little bit with the one off gain, is it fair to assume that without that you'd sort of have a similar delivery to the first half, or just - I mean really his question again, it is five million, is it ten million?

Then finally on the Construction business, obviously you're forecasting a big swing in the second half, I think you've flagged there was a big project business in the UK is coming off a little bit, which is offsetting the - to some extent offsetting the positive restructuring efforts in the regional business. Can we just get a feel of where you sort of see that business going into 2014, because obviously that's the big swing factor for the company? Thank you.

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Duncan Magrath, Chief Financial Officer
Shall I do them; a lot of them are financial. In terms of average cash I think we finished the period at 189, that excludes some cash that sits in the discontinued businesses, I think that was a pretty good performance at the end of the period. I think the average during that period was in line with our expectations and slightly higher than the average I would have said at the start of the year.

So in terms of the second half I don't expect that average to come down much from the first half, indeed it may be slightly higher. We've got for instance dividend payments going out at the beginning, or have gone out at the beginning of July. So that's part of the reason for giving that projection forwards. So for the year as a whole I would expect probably average cash to be in excess of 300 and that's ignoring the fact of the proceeds coming in.

In terms of the pension, your question - in terms of the cash, it's assumption that we would end up with broadly the same level of deficit payments when we've settled our triennial evaluation, that's my assumption at the moment?

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Gregor Kuglitsch, UBS
75 million odd per annum from now on?

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Duncan Magrath, Chief Financial Officer
In total, yes, most of that's UK; there are some other payments in there.

Professional Service, remind me again, your question was?

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Gregor Kuglitsch, UBS
What's the degree of magnitude that you're sort of taking into account?

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Duncan Magrath, Chief Financial Officer
Right, so I flagged up the 21 million short fall in the first half and 24 for the year as a whole, as I said some of that will be made up by outperformance elsewhere, but probably more than half of that will come from the settlement.

And the final one in terms of Construction, did you want to?

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Andrew McNaughton, Chief Executive Officer
Yes, I think as Duncan has already flagged up we've taken the skew on the profitability certainly to the first half with a small amount in the second half. I mean that gives you an indication as to where we see the impact of that.

The order book, the news that we see from our business is first of all our order book is holding up, even given constraints that we've put on the business around bidding and input margins. Those margins are going to flow through into the business. You've pointed out as well - issues around major projects, is that going to be slightly lower volume? Possibly so, but we're certainly seeing the margin level holding up and moving forward in our regional business. That will flow through into 2014.

One factor that we do have to consider as well though is in combination with that in order to see, you know, full margin levels starting to recover we do need to see market recovery in its totality. We're starting from a low point, and similar observations were made about other sectors of the industry yesterday. We're starting from a low point and it will require volume to pick up before we see full recovery to the kind of margins we expect.

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Stephen Rawlinson, Whitman Howard
Just on the UK picture and that's about where my question is, on slide 26 you say there's an action plan in around improving the bench trends in the UK and about customers.

But actually on page five of the text and in your own speech you talk about action plans that would deliver a consistently high standard in disciplines such as planning, cost estimating and commercial governance. So you're indicating that perhaps they weren't where they should have been historically. So I suppose the single question is when do you expect to achieve the sorts of standards, the high standards to which you're referring in planning, cost estimating and commercial governance?

In that context following on from the last question, what is the size and scale you expect to achieve in UK Construction on the longer term basis and what sort of margins when you've achieved these high standards?

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Andrew McNaughton, Chief Executive Officer
Well I would put it slightly differently in turn to recovering to the high standards. What we saw and we explained earlier in the year that as a result of the restructuring we saw some of our management distracted from the practice that they've had in the past. And therefore it's a re-placement, or putting back into place, if you like, the standard of rigor of those. Those actions have already been taken; I don't see any misalignment with the statements in there at all. The actions were taken several months ago and we're now actually seeing those actions coming forward, we're seeing for example improvement in our commercial performance on the outturn of projects, we're seeing improvements in the timely operational delivery in terms of the projects that we had. And we're also seeing improvements in the margin coming into the order book, and with the scale of the order book those factors are going to see the improvements going forward.

I think I'd go back to the point I said just a moment ago, in the fact that we will see improvement in that in 2014. It will be a significant improvement on where we are this year, clearly. But it's going to need combined factors to take it back to the kind of projections that we've given and we've experienced in the past for that Construction business. It needs market recovery to come with that, because we're still operating in a challenging and aggressive environment.

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Stephen Rawlinson, Whitman Howard
Can you give us an indicative size and scale for the UK business on margins as well please?

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Andrew McNaughton, Chief Executive Officer
Well we've given indications of between 2.8 and 3% for the Construction business in the past and I don't see any reason why the ability of that business can't be that way. In terms of scale, we've given an indication of the scale for this year. We see volume pick up having to come back through 2014 in order for us to get back fully to those kind of - a) both the scale of the business and b) the kind of margin delivery.

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Duncan Magrath, Chief Financial Officer

I think just perhaps to add to that, I mean roughly if you think of the UK Construction business, as I referred to there are other bits like rail, etc, but if you look at the UK business, which is the focus of the comments it's been around about - for this year it was anticipated a 20% drop from last year, so we had the 16% drop in the first half, but that's around a £2.5 to £2.6bn business.

That's traditionally been sort of 50/50 between the regional business and the major projects business. As I referred to the fact that the regional business, the order book is actually reasonably stable, the major one has come down. So I think the totality may come down a little depending on the way the order book is moving for next year, but you'll see a bigger skew towards regional and away from the majors. So you might be - if it was 2.5 it might be 1.4/1.1 that sort of split.

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Olivia Peters, RBC

I'm just wondering in terms of this Australian contract dispute, what makes you confident it's actually going to be resolved in November and given that you haven't changed your full year guidance and you still expect to meet market expectations is that reliant on a decision on this contract being made?

And can you give us an idea - sometimes you give us an idea of the weighting of first half second half, I mean historically it's been 40/60, I had assumed 30/70 and now it's looking like it could be 20/80 is that correct? And also how much cost can you take out of your Australian business; you sort of skimmed it, but didn't actually give a number? Thank you.

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Andrew McNaughton, Chief Executive Officer

Perhaps I'll cover the contract one, the contract is a substantial contract that was finished over 12 months ago. Our confidence around the resolution of that is we're actually engaged in a formal process which will conclude this year - so our confidence of bringing that into the business. Clearly whenever you look at those kinds of processes, are there minor concerns about either delays or the outcome - inevitably there are, however we've taken a prudent view of what our forecast of the outcome of that process will be. So we have strong confidence that that will be delivered into this year.

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Duncan Magrath, Chief Financial Officer

Just to pick up the cost saving point, I mean on slide six I did rush through the slide, but there was £15m of savings in the first half and £43m anticipated - £43m of savings for the full year. As I said this is a billable hours business, if the net revenue declines that's going to hit the bottom line unless you take your costs out, that's the scale. It's a very significant reduction that they have been through.

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Andrew McNaughton, Chief Executive Officer
In terms of your skew question, the numbers that you're pushing back are about right. The reason that we see it and it's understandable as to where you're - the flip from one to the other is and the reason being is the issues that we have taken and the impact that we've taken in the first half and the confidence that we have on the run rate going forward, both in the UK and in Australia in delivering that in the second half. Joe?

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Joe Brent, Liberum Capital
Three questions if I may, firstly we haven't talked much about the supply chain and I think some other companies are saying that there is increasing supply chain costs which could have implications for you given the long order book nature of some of your business. I'm interested in your thoughts on that firstly.

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Duncan Magrath, Chief Financial Officer
I don't think we - we haven't seen any particular increases coming through yet, I think as we've talked about over the last 12 months at least, probably. Clearly there are a lot of pressures building on the supply chain; they will at some point come through. We have traditionally been very good at managing that. I have no reason to suspect why we wouldn't do that going forwards.

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Andrew McNaughton, Chief Executive Officer
Can I just pick up on that as well, I think if we take two or three areas so that I don't make it too long an answer. But the interesting fact is the shift, as Duncan just said a moment ago, towards the regional contracts as opposed to larger fixed contracts benefits that, because we can be better attuned. Interesting and ironically the issues that we saw earlier in the year with that short term market where the market is moving downwards or away from us, because they're short term in nature the ability - you are bidding them on a shorter time cycle, so you're not locking yourselves in to the kind of impacts of increasing costs in the supply chain.

Similarly if you look at a lot of the businesses that we have, for instance just taking an example, in the future the Thames Water Framework, whilst it's a framework on a £1.5bn of work, it's actually split down into a very large number of smaller packages of work. And so you have the opportunity there of actually - you're not locked into large chunks and pieces that are going to be done by the supply chain. So as we see the business and the shape of the business going forward we're better placed as that market ticks up and cost increases come on.

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Joe Brent, Liberum Capital
Thank you and second if I may, you say you're happy with the consensus range, which I think is quite broad, but would you extend that to talk about the consensus EPS range, given that I think in the notes you say there's a 48% effective tax rate?

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Duncan Magrath, Chief Financial Officer
Yes, we'll have to see where consensus settles down because obviously we're talking about a continuing basis and there are a number of moving parts. I mean the tax rate is quite sensitive this year to profit mix, particularly we're seeing obviously a shift of profitability from the UK to the US where traditionally our tax rate has been around about 47 - 48%.

I mean there are some other factors within the overall tax rate like preference shares are non-deductible, there's also the good news about the government reducing the overall corporate tax rate is that the tax rate comes down, the bad news is that if you've got deferred tax assets related to pensions you have to write off elements of that. So there are a number of moving parts in there. So I think probably we'll have to see where people put everything through in their models to see exactly where we'll end up on EPS.

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Joe Brent, Liberum Capital
Thank you and finally from me, I think in the notes there's basically £88m of non-underlying items, and within that there's £35m of restructuring in respect of the ongoing business. Can you just remind me what the £35m relates to?

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Duncan Magrath, Chief Financial Officer
Sure, so I very much took it through on the slide, there's effectively - as we talked about there's Australia, so there's £5m in the first half and £8m I've flagged up for the second half. And given the scale of those savings, the £43m, there's a pretty good payback frankly on those costs.

In relation to the rest, the bulk of them - the two next biggest items are the shared service centre in America, which we set up or launched in March of this year and then in the UK there's the ongoing restructuring that we've had in the business that we started last year. And clearly there's been some additional restructuring costs that we've taken this year in terms of the actions that we've taken.

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Joe Brent, Liberum Capital
Thank you.

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Andrew Gibb, Investec
Just a couple from me, just going back to Professional Services, obviously we've focused on this contract settlement in the second half, but you also talk about a big mining project starting. Could you sort of - commercial sensitivity I appreciate, but the sort of size we're talking about second half and maybe what the project actually is, given that the capex seems to be getting cut quite quickly over there?

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Andrew McNaughton, Chief Executive Officer
It is sensitive but it's also out in the public domain as to the contract, it's a contract in Western Australia, it's a project that is committed to by the asset owner. The advantage of that contract is - the scale of it is about US $10bn overall as a project, it's a commitment in iron ore and they already have off takes signed up for delivery to customer.

So the process they're going through at the moment is we have been awarded the programme management contract, we were awarded that earlier this year, we've been taking it through their due diligence phase for financial close for bank support. There's two steps that they've got to go through, they've already passed successfully through one of those and they'll be completing the second phase within the next four to six weeks. So we are pretty confident that that is progressing and the owner themselves have already invested significant equity into it. So the thing that gives us confidence is the fact that they're investing, they have the off takes signed up and also port works are already starting for it. So we believe it is something that they are committed to deliver.

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Andrew Gibb, Investec
Okay, thanks. And just secondly on - looking back at the first half last year you obviously had a number of favourable contracts ending in terms of the numbers. Has there been anything like that this year and also in terms of provisions, has there been any sort of significant provision releases first half and if so where they might have fallen?

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Duncan Magrath, Chief Financial Officer
No, I mean yes you're right last year we had some benefits in Dubai, I think the environment in Dubai is still getting better, there's been a small benefit around the sukuk, which is the bond that's traded, which against some receivables there may be one or two million on that in Dubai. In relation to provisions the major movement on provisions is frankly last year we obviously had some redundancy provisions which we've utilised this year.

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Andrew Gibb, Investec
That's great, thanks.

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Kevin Cammack, Cenkos
I've got four but three of them are very quick. The first one though, I'm a bit lost on Australia I have to say because on the one hand you're making it pretty clear this is within Professional Services, it's you know a sort of hourly costed out rate, etc, etc, but then we've got this settlement issue of a contract, which sort of suggests that's not really professional services as such, that it's actually a delivered contract. And I just wonder if you can just sort of flesh out what exactly the business actually is in Australia, to what extent it's definitively a services business, and to what extent it's actually more of a contractual business?

And given what you've said about the cost reductions and the rebasing I can understand that in terms of de-manning if we're talking about costing peoples' hours out you don't need as many people, etc. But the property issue I guess is going to be a longer churn to resolve that. If we put aside the downturn in the market which has hit you in this period and the specific settlement issues, would you actually expect the Australian business to be profitable for you in the medium term? Or is this going to be something that just sort of drags around breakeven for a while until you can fully address the cost base?

That's the long one, the short ones which are very easy. Can you actually say in terms of the disposals going forward is there still any carrying goodwill related to those which we need to think about coming out from the balance sheet second half?

The other one is regarding the comments on margin recovery in the States, you mentioned a sort of 12 to 18 month time frame, is that based on your experiences of previous cycles or could there be circumstances actually where the improvement happens quicker than that in certain markets?

And lastly when you were talking about the strategy issues, I mean in the past you've made quite clear references to areas like Brazil, South Africa, India, and they, maybe because of the constraints of time seem to have been sort of off the agenda today. Is there anything you can say about progressing those, or is that not happening at the moment?

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Duncan Magrath, Chief Financial Officer
In terms of disposals in terms of goodwill, if you look in the notes in terms of note nine there's no goodwill left on any of the rail entities. There is some goodwill related to the FM business.

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Kevin Cammack, Cenkos
There's none, no goodwill left?

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Duncan Magrath, Chief Financial Officer
None left in rail, there is some on the facilities management business. Secondly in terms of - just to clear up a point - or margin recovery in the US, perhaps just to touch on that briefly, Andrew may wish to add some comments, I mean that's a) our management's view, but secondly is supported in the past by some industry data. Clearly whether the recovery will be the same this time as it's been in the past, I mean you'll have to form a view, but certainly that's our management's view of the timeframe.

Just to be clear, in terms of the contract - there are two contracts we referred to in Professional Services; one is a contract settlement that is not actually in Australia. So it's got nothing to do with the Australian business, it's settled elsewhere, but it's the upside that is offsetting the downside in the Australian business. The other contract referred to is the mining contract going forwards, which is a contract.

In terms of the profitability of the business, it should be profitable next year, in terms of the nature and makeup of the business - do you want to?

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Andrew McNaughton, Chief Executive Officer
Kevin if I can pick up on that, I mean hopefully - I can understand the project confusion if it was considered there. I mean the vast majority of it; we have several pieces of activity in Australia, which is fundamentally why we're moving forward with the country model to bring them all together.

The business that we have in Australia in Parsons Brinkerhoff is predominantly a professional services business. We also carry out work in the rail market and we have ongoing contracts through our rail business. We also carry out overhead line works. Those are at risk contracts in our normal mode of activity that we carry out elsewhere. Our aim is to bring everything together under a single management because we want the management team in Australia focused on the markets in Australia, in order that we can have a plan for strategic medium and long term growth. And it's the bringing together of that model that's allowing us to capitalise, for instance as I mentioned already today, on markets such as highway maintenance and water.

We're actually taking the knowledge and capability that we have here in the UK, and people who are delivering that in the UK, and transferring them to the business in Australia as those markets open us. So that's giving us the ability to broaden the capability and the range of delivery that we have in the business in Australia.

So our strategy there is quite clear. The issues we've sighted are issues related to the resources sector this year. The reason why we have confidence of the medium term profitability is actually through that fact of us changing the nature and the shape of the business. We've talked about the Thames Water contract here being a seven year contract on a large base. The projects for Sydney Water are exactly the same. So we're actually taking part of the business and putting it onto longer term outsource type contracts which give us that ability to give it a much more stable base. So that gives us the confidence.

If I take your final point about strategy. What I mentioned today was we end up having three stages of our plan that we absolutely have. We're not changing our viewpoint that in the longer term our business will be focused on international infrastructure and it will be done so from a series of local businesses. So the kind of markets that we've talked about in the future remain a focus for us over the longer term.

If we take the other end of the spectrum we've actually had a focus in it over the last few months of looking at strengthening the existing capability of the business, and to take Stephen's point, you know returning to that kind of performance that we absolutely should expect from the business.

In the middle there we've got a piece that we should also be balancing to ensure that we capitalise as markets recover. And so our strategy going forward is absolutely view focused on a longer term, but to ensure that we don't lose any of the opportunity that will come through market recovery. And particularly the most – the one that's at the front of our mind is the way the US market is going to recover. So we're having to balance that. It's not lost but we're having to balance that right now.

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Kevin Cammack, Cenkos
Sorry could I just very simply come back on the Australian thing. Is it the intention to, when you talk about one management team and one management structure, will effectively be run by Parsons or by a - well not independent but a Balfour management team in Australia.

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Andrew McNaughton, Chief Executive Officer
If you bear in mind that Parsons Brinckerhoff is a wholly owned subsidiary of Balfour Beatty, it will be a Balfour Beatty run management team. How they brand and how they go to market will be appropriate for the particular markets as we do elsewhere, but it will be a single team.

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Howard Seymour, Numis Securities
Two from me, if I may. First one is just on the UK regional businesses. You mention improving the strength and you've closed the regional unit. Is everything that you've done in the first half what you'd expect to do in regional in terms of offices, and also in terms of your sort of bidding activity going forward, i.e. would you expect to continue to bid at the same rates as you are doing it at the moment?

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Andrew McNaughton, Chief Executive Officer
As I say we took the actions of those that we determined in June, the business units to close. I'm not getting fixated on the number and the shape and the positioning of business units, because if we look back over the last five years that business has changed depending on how we address individual markets. If there's anything we've probably been slower in taking action around those and moving them. So will the business change in shape over the next two or three years? Yes it will, because the nature and the requirements of the regional market will change over the next two or three years, and therefore we'll shape and scope them accordingly.

In terms of the bidding margins. We've already strengthened our criteria as to the bidding margins we have, and in particular we're looking to return to the place that we have where an increase of our exit margin as opposed to our bidding margin. And that's the strength that we were looking to go in. The one thing I have to temper that with, as I said earlier, is in order for us to fully benefit on that we need market volume in the whole market to recover to a position where the volume supports significantly increased margins.

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Howard Seymour, Numis Securities
Okay, thank you. Second question was just on the investments business. You mentioned that the big cost had gone down in the first half. Just a sort of indication on where you'd expect them in the second half, and also comments, please, on how you see the sort of UK PFI market developing which has been pretty quiet to date.

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Duncan Magrath, Chief Financial Officer
Given that the person behind the business is in the room, he always tells me he's going to spend lots of big costs and normally over performs and comes in slightly under. I mean I would expect at the moment broadly the same level of bid costs in the second half as we saw in the second half last year.

It is very lumpy. For instance bidding hospitals is much more expensive than bidding some of the student accommodation we've been bidding recently. So it does vary depending on the stage and the type of work that we're bidding. In terms of the UK PFI market.

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Andrew McNaughton, Chief Executive Officer
Yeah I mean I think there are - clearly the move or the current theme for PF2 is around the schools programme. I think there is some consultation going on and there's some complexities around the financing model. And I think that's going to take some time to resolve.

You've said it's very quiet, I guess it's very quiet on the horizon for those in the PFI model as well. My honest reaction to that is it's less and less relevant to us. I mean if you look at the financial closes that we've had this year, if you look at the preferred bidder situation that we've got this year, if you look at our pipeline of bidding. Actually whether the PFI and the government resolves PFI in the UK, it's actually less and less relevant to us. We see our opportunity pipeline exists, it's strong and in fact it's improving.

So from our point of view the real importance for us is the quality of earnings we take from the whole of the investments business, because we are replenishing the asset portfolio and we're broadening and diversifying the business, and we can see more opportunities internationally. That doesn't say that if they decide to resolve themselves in the UK market, there's no reason why we can't return. But at the moment our focus and our energy is on areas where there is activity and there is a lot of activity.

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Stephen Rawlinson, Whitman Howard

Kevin mentioned the theme of items that have been sort of quite prominent in recent presentations, such as India and Brazil, but actually haven't featured today. One of the other items was the cost reduction programme which you outlined 12 to 18 months ago, I think started off at 30 and an additional 50 was added, which meant the cost base by 2015 would be about 80 million lower than it was in 2011. Could you just sort of give us a minute or two on where you're up to with that? It may well be the hiatus of recent events in the UK has put that by the ball but it may well be that it's accelerated that programme. So if you just touch upon that I'd be grateful.

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Duncan Magrath, Chief Financial Officer

Yeah, I'll do that. I mean there were three elements to the cost reduction programme. There was the procurement benefits which come through in the gross margin line principally. Some of it's indirect cost so that comes through in overhead. There's obviously people and property. In terms of the original plans around property, as you say we've probably now taken more property costs out than we originally intended. If you come and visit our office you'll find we're all together in one office in London now, rather than being spread around London, so there are more savings coming through on the property side than we originally said.

In terms of the people – most of the overhead costs in terms of the move to the shared service centre, again we're on track and again there are opportunities we are pushing more into the shared service centre this year. For instance, I touched on it briefly; we've gone live with our IT shared services, so there is a continual programme there.

In terms of the targets, we're still on track for them. Some of those targets do relate to, for instance, WorkPlace, so some of that sits within that business. But I would still expect to hit those targets even without WorkPlace because of some of the additional savings.

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Mark Howson, Oriel Securities
A range of questions if I may. Just on the construction UK slide, I think it was on number nine, just that 88 million of overheads, can you give us a clue what's in that? Presumably that includes bid costs in there which presumably would come down in the second half more than in the first. So can you say what else is in there, just to give us a feel for the spread?

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Andrew McNaughton, Chief Executive Officer
It's everything. It's effectively all cost that sits above a project. So it's the office cost, it's the people cost, it's the IT cost, it's bidding cost be it internal people, be it external, where we're involving design fees etc. It's everything.

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Mark Howson, Oriel Securities.
Secondly just can you give us a feel for sort of the yearend net borrowing position, excluding non-recourse in JVs I'm assuming it's going to sort of rise by sort of 200 million in the second half. Is that fair?

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Duncan Magrath, Chief Financial Officer
Yes so around 350 excluding the proceeds from any of the business disposals.

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Mark Howson, Oriel Securities.
Thank you. And just finally from me just on I notice - I think I can see an announcement that you've appointed Neil Kirkby to run Utility Solutions, some of us know him from the old Enterprise days. Is that correct, you've appointed Neil Kirkby?

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Andrew McNaughton, Chief Executive Officer
Neil was appointed some time ago, yeah. So he has been appointed but he was appointed some - it's pretty old news. He's been there for quite some time.

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Emily Biddulph, JP Morgan
Morning. Just one question left. You were talking about US construction and a sort of improvement in the revenue momentum between Q2 and Q1. If I caught the number right I think the overall first half growth was 2% in sort of constant currency terms. So trying to think about what the sort of improvement in momentum might be. Is it sort of that Q1 was flat and that Q2 was sort of plus four or am I sort of - I am assuming that's

the maximum it could be that Q1 grew or is there some sign of a one off in the mix that I'm missing?

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Duncan Magrath, Chief Financial Officer
No, you're quite right. The reduction was about 4% in sterling but 2% in constant currency for the first quarter. And it was flipped the other - it was about roughly 6% I think in Q2.

. . . .

Emily Biddulph, JP Morgan
Thank you.

. . . .

Andrew McNaughton, Chief Executive Officer
Basak have we got any questions from the web?

. . . .

Facilitator
The questions from the webcast have now been covered.

. . . .

Andrew McNaughton, Chief Executive Officer
Excellent. Gentleman?

. . . .

Gregor Kuglitsch, UBS
Just a follow up question. I think in the disclosure you say you sort of have 20 million odd or I think it was 18 million in a German rail business, and equally you said I think a minute ago that you think you can recover net asset - I'm just wondering sort of is that business being restructured to break even, because it doesn't sound like a particularly appealing asset, presumably it's bleeding cash?

. . . .

Duncan Magrath, Chief Financial Officer
That was an aggregated view across the German and the Swedish business. I mean there are a couple of areas which have been problematical in the German business, and some of those have been - we've actually done a small MBO for instance of part of the business, or are in the process of doing it. There are a couple of problem contracts that we referred to last year that are causing a lot of that issue still in the current year. But the reality is, underneath it there's a core business that we think is valuable and will be

profitable. And at the moment it's been masked by a couple of larger, more complex multidisciplinary projects.

. . . .

Manu Rimpela, Deutsche Bank
Just a follow up. Can I ask on the dividends what's the motivation to - I mean it was probably the board's decision, but what was the motivation to keep it stable in the first half of the year? And is there kind of - I guess the dividend policy in terms of raising it with a couple of cents would have not had a meaningful impact in terms of total balance sheet of the group, so just how do you view the dividend and what was the kind of motivation behind the interim dividend?

. . . .

Andrew McNaughton, Chief Executive Officer
I think the motivation to maintain our policy around dividend we've been quite clear about. You know, we understand to all of our investors that the importance of the dividend, and Duncan and I work extremely hard to ensure that we can conform with our policy. The signal that despite the - and the bridge that Duncan has shown as to where we believe we're going to get to at the year end, we're confident we're going to get to the year end and therefore at this point in time our decision was to hold the dividend in the same way as it was last year.

The motivation there is for us to absolutely be motivated to deliver value through the dividend to the investors. You're right, we'll take the decision at the appropriate point in time with the view that we can see going forward into the future. I take you back to the discussions and the presentations we've had over the last number of months about how and when we will be able to see that, but for this moment in time we believe that the confidence we have of delivering the full year position underpins our decision now about dividend.

. . . .

Mark Howson, Oriel Securities.
Just a final one from me. Can you give us a feel for - apologies if it was in the announcement last Friday – of the timing of the receipts from the WorkPlace sale, is that just in the second half all of that?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah should be November, round about November.

. . . .

Mark Howson, Oriel Securities.
Thank you.

Andrew McNaughton, Chief Executive Officer
Okay, ladies and gentlemen thank you very much for coming today and I hope you've enjoyed the presentation. Thank you very much.

END

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