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Presenters: Ian Tyler, Duncan Magrath
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Operator: Good day and welcome to the Balfour Beatty Q1 IMS Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Ian Tyler. Please go ahead sir.

Ian Tyler: Hello there, thank you. Thanks everybody for joining the conference call for our Q1 Interim Management Statement which you will see we released this morning. Now if you will allow me to summarise the developments in the quarter before Duncan and I will take your questions.

I am pleased to report that overall performance has been consistent with the outlook given at the time of the full year results. Our order book supported by good wins in the International businesses and growth verticals has been maintained at a level in excess of £15 billion and continues to give us good visibility. We're seeing some signs of recovery in the US supported by positive leading indicators for the fifth consecutive month which we would expect to benefit order intake perhaps later in the year. As anticipated the UK construction market remains challenging.

We continue to see opportunities for our business in industry vertical such as power, rail, transportation and mining, particularly in growth markets like Australia, Canada and in the long run in India and Brazil, all of which are at the heart of our strategy and our optimism for the future. In the meantime we are continuing our ongoing cost efficiency in PPP asset disposal programmes and are confident that these initiatives will underpin our performance. This should ensure that we make progress in 2012.

Finally the financial position remains strong with average net cash in the first quarter exceeding £100 million. Looking ahead we anticipate a reduction in Q2 before an increase in the second half. Duncan and I will take your questions now.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question at this time please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We will now pause for just a moment to allow everyone to signal.

We will take our first question today from Manu Rimpela of Deutsche Bank. Please go ahead.

Manu Rimpela: Good afternoon gentlemen, I will have three questions. The first one, you mentioned in the releases you are accelerating the cost cutting programmes, so I just wanted to confirm whether this is something that has changed from the 2011 results where you mentioned the cost-cutting programme, so have you seen that you need to accelerate it or is it just a continuation of the ongoing programme? Secondly at this point of the year are you able to give us an idea of the first half year and the second half year, an idea of the earnings split between those year halves? Then thirdly on the working capital and the net cash position, can you give us an idea what you are expecting for the year end in terms of the cash inflow you will be getting from the working capital? Thank you.

Ian Tyler: I will deal with the first one which is very straightforward, no, absolutely nothing different to what we said at the results presentation. The word accelerating means quite simply that we have been on this process now for the last 18 months and as we said we are now trying to up the total cost reduction from what we estimated originally at £30 million to now delivering a total between Phase 1 and Phase 2 of £80 million. That's the reason for the word acceleration, but it's exactly the same point that we made back in March.

Duncan Magrath: I will pick up the other two. In terms of earning splits I think we highlighted in the release that we expected Support Services to be more second half weighted this year than last year. Obviously around the investments it will depend largely in terms of the timing of completing our asset disposals for the year, so I think at the moment particularly with that as being a lumpy number it will be difficult to say. I think in terms of the construction side then you will obviously get a reduction for instance in margin in the first half which is a continuation of what we said around the US construction side. The underlying profile is not going to be significantly different from an earnings perspective, but there are quite a number of moving parts within that. I think in terms of the cash, working capital and cash, I will repeat what I said in March which was that we had a second half average cash position of about £104 million last year. I said at the time that we expected this year to be around about that level for the year as a whole. We have slightly exceeded that in Q1. We expect it to be less than that in Q2 on an average basis, so the first half will be below the £100 million but as I said in the release we expect a recovery in the second half. The absolute level of working capital, again I talked about in March of about £100 million further outflow on working capital over the period. Actually what the end cash position will be as I've said many times will be a function to a certain extent of timings actually on the weeks and the days simply because of the scale of the cash flow of the business.

Manu Rimpela: Thank you.

Operator: Thank you. We will now move on to our next question which comes from Gregor Kuglitsch of UBS. Please go ahead.

Gregor Kuglitsch: Hi, two questions. One is picking up on your comment on the US which from my perspective seems to be one of the incremental new news in this particular statement. Is there anything tangible other than the sort of macro lead indicators that we can all track? Is there something happening on the bid pipeline, maybe on the public spending side or indeed the private? I would just be interested to have some colour whether you are hearing anything specific from your own teams on the ground as opposed to just the widely tracked macro indicators. That's the first one. The second one is on cash, you obviously take the opportunity to flag that Q2 cash is going to deteriorate and then pick up in the second half. Are we talking about a material number here or is it just something that you want to flag at this point, to get a sense around magnitude?

Duncan Magrath: Ok. In terms of the US comment, I think to a certain extent it's probably worth saying the statement as a whole most of the movements we are talking about are pretty small compared with the year end position. So when we're talking about slight increases and slight declines they are very small and I think that also applies to sentiment around the US and UK construction markets. To pick up your point specifically I think we are seeing in all three areas a degree of extra confidence on the US but it's not materially affecting any of the numbers that we report, so on Professional Services I think one quarter in, obviously we are more confident around 2012 simply because of the shorter cycle nature of the order book. It's nice to get the first quarter underway when you're looking towards the full year. I don't think that's particularly a market comment. I think on the building side there are one or two larger prospects that have been bid. We haven't converted any of that into the order book yet but the fact that they are around gives some degree that perhaps the market will pick up. I think that's highly dependent on confidence so obviously events in Europe could also knock people's general confidence, but I think slightly better signs. On the infrastructure side it's obviously a reasonably small part of our business but I think there are some larger design build PPP type prospects in the road and the highways market which obviously is much more where we would like to play with our combination of PB and our infrastructure business bidding on those bigger scale projects where there is lesser competition because of the scale of them, bonding requirements, capabilities etc. That bid list is just slightly longer than it has been before, so I would emphasis all those elements are slight but they are slightly in the positive. Ian, did you want to add anything to that?

Ian Tyler: I think we need to both be clear what it does mean and what that doesn't mean. First of all we are not going to get any recovery in any of our markets until we see the bid pipeline increase and we are seeing some evidence of the bid pipeline in the US filling out. I think there are two rather different markets there. One is the infrastructure market and that would include some of the issues around transportation and particularly some of the highways and rail; and secondly and probably more recently for us the water market. Bear in mind that the nature of our presence in the market there is quite regionally specific, so I would hesitate to extrapolate from that across the whole of the US, but certainly in terms of our business at the moment we have a lot more things on the horizon to be thinking about than we would have done a little while back. I think the indications in the building sector are slightly more distant in the sense that these are sort of…we are seeing straws in the wind that indicate straws in the wind. We are one stage before really seeing the bid pipeline pick up, but I make the point that we have to go through this stage before we will see a pickup, so I would sense if those things actually come out as correct for us we will probably see recovery in our infrastructure business and that will affect both that element of our construction business and in the fullness of time probably PB as well probably before we see the recovery in the building sector. Does that answer the question Gregor?

Gregor Kuglitsch: Yes. Maybe one more before I hand over. Would you be able to just quantify what for the first three or four months the book to bill was for the group, because we can do the order book for this, obviously moving parts with the currency, I would just be interested to have a number on that.

Duncan Magrath: It's very stable. In essence, the statement referred to the fact that broadly it's above £15 billion, it's broadly in line with the year end. There's a slight uptick in underlying orders and that's offset by a slight downturn because of FX, bringing it back roughly to the same number as we had at the end of the year, so it obviously varies by division but broadly you've got a book to bill broadly in line with 1.

Ian Tyler: It's about 100% I would say. You won't be able to make much. Any variation around that will be down to timing of individual projects.

Duncan Magrath: You had a second question around cash and whether the movements were material and it obviously depends on your definition of material. I would emphasise again we get about £40 million of cash flow a day given the scale of the organisation, but no, again what I am talking about is reasonably slight movements refer back to the earlier point, is that within that context I would see Q2 being down on Q1 but still see the average for the year being around about the 100 that I said in March.

Ian Tyler: I would make the point on this and I said it in March – we are in the realms of normal cyclical change. This is simply an effect in our construction division in particular of variations in negative working capital which will follow two things: it will follow size of project, it will follow the level of activity generally in the market and the effective process in the market and we are genuinely within normal cyclical bounds and as I said I think the fact that we will see an outflow of cash in its own right shouldn't in itself be of any particular significance.

Gregor Kuglitsch: Thank you.

Operator: Thank you. We now move on to Marcin Wojtal of Bank of America Merrill Lynch. Please go ahead.

Marcin Wojtal: Good afternoon. I just had one follow-up question on the US. Could you perhaps tell us when do you think a new highway bill could be passed? Is it realistic to expect that before the presidential elections? Then when it is finally passed would you see that as a significant positive catalyst for your Professional Services business or actually these temporary extensions that are now in place, they provide the funding anyway? Thank you.

Ian Tyler: I suppose I could answer your question with one simple word: no, I don't know. I get regular email updates on where we are on the Transportation Bill and quite frequently I wish I didn't because it does move all over the place and it's very, very difficult to predict. Until we get to the point of actually an approved bill I wouldn't suggest we predict it one way or the other. There's all the issues around gas tax, all the issues around the elections in November and all the rest of it. The only thing I would say is that as I said to you before first of all the Transportation Bill only impacts federal funding and I think it comes to what we saw in that order book just now and the things that are on the horizon. The states are spending money on transportation. We may not be seeing massive growth in that at the present time but on balance we're seeing more in the future than we have been seeing in the past and that's driven by state by state balances, not by federal funding itself. Secondly there is an impact of the Transportation Bill in terms not so much of quantum of activity but in the sort of longevity of some of the projects. We have been quite successful in growing market share by moving by degree out from the very large project which is PB's natural home territory into some of the smaller work, and we have grown market share in the process, so in terms of the actual impact on our business of that moving to a short cycle reauthorisation, it hasn't really impacted us that much. I think in the longer term we are going to see a growth in the market and obviously that will only in itself come when we see the Transportation Bill come through. But I think it's a necessary condition. Of itself it isn't going to be the big catalyst for change. Does that cover it?

Marcin Wojtal: Yes, thank you very much for that.

Operator: Thank you. Andy Brown from Panmure Gordon has our next question. Please go ahead.

Andy Brown: Good afternoon guys, it's Andy at Panmures here. I've got three very quick ones. Just in terms of construction exposure, could you give me a flavour of how much is UK South East exposed?

Duncan Magrath: I would guess about a third but let me come back to you on that.

Ian Tyler: A third of what?

Duncan Magrath: Of the UK.

Ian Tyler: Of the UK total revenue, I think that's probably about right, maybe 40% of it. We are guessing a little bit because it rather depends what your definition of the South East is and I don't carry that with me.

Andy Brown: Ok, just a rough idea is fine. The second one, just to understand…when you talk about good visibility in one of the opening lines of the statements. I guess with that bearing in mind the changing nature of the group particularly with the investment side, if we have to take the Investment division out of that statement, don't we? So are you here just talking about the construction in Professional Services and Support Services or is this just about the Construction business when you talk about good visibility?

Duncan Magrath: It's across all three: Construction, Professional Services and Support Services.

Ian Tyler: Your point is fair one of course, it is different. It was a general comment, not a specific one. Your point is actually right, we probably have greater visibility of Support Services and slightly less visibility of Professional Services just in the very nature of the contract cycle and construction is in the middle, but overall we have something like a visibility on average of certainly well in excess of 12 months of orders, £15 billion of orders. So it was really just a general point about the fact that that gave us an ability to look into the future.

Andy Brown: Brilliant. The final one, just in terms of the investment disposals that you flagged at the full year results, I know you say that you're on track to achieve them. Is that because markets are active, prices are still good or is there a risk that you might just have to sell a few more to get there?

Ian Tyler: At the present time the markets are very active and pricing is good, I think that pretty well defines it. Obviously we've got to translate that into the real outcome that we're looking for, but I see absolutely no reason why that won't happen.

Andy Brown: Brilliant, cheers guys.

Ian Tyler: Thanks Andy.

Operator: Thank you. Chris Moore of Berenberg has our next question. Please go ahead.

Chris Moore: Hi there. I just had one quick question, in terms of acquisitions, in 2010 you said you had about £500-700 million available to spend on acquisitions over five years. I just wondered whether that's still the case and also whether you actually think you would spend that amount?

Duncan Magrath: Since we made that statement we've spent about £150 million on HSW, Fru-con and a couple here in the UK, so if you knocked that off you'd be looking at 350-550. I think we certainly believe over that period we've got the capacity to do that. To your second question about whether we will, it obviously depends on the opportunities that are out there, very much as we've talked about before HSW largely filled out the geographic piece for the construction business and also the Power Efficiency and Technical Services that we acquired in the UK very much completed the support services capabilities that we needed in the UK, so very much the third leg of the acquisition programme was around professional services and what we are obviously focusing on is identifying those opportunities and trying to crystallise them and you can never be sure on timing as to how long those processes take.

Ian Tyler: I would just emphasise one point that Duncan said there, exactly that, the capacity is there. The strategic framework is certainly there. What we are not however going to do is to overpay for acquisitions. We haven't done so in the past, we're not going to do so in the future, so as to Duncan's point there, whether we do or not will be predominantly driven by opportunity. Those opportunities have come in the past and have come at roughly that sort of rate, but again we will just have to see what happens. The one thing that we're not going to do is to overpay.

Chris Moore: Ok, that's great. Thanks.

Operator: We now move to Olivia Peters of RBC for the next question. Please go ahead.

Olivia Peters: Good afternoon everyone, just a couple of questions. I was just wondering given your comments previously on the US, can you remind us what the average bid times are on large PPP type infrastructure projects compared to larger building projects, the non-residential type things? Also obviously the UK remains challenging, everyone accepts that but are you seeing any new developing trends in the UK at the moment? Thank you.

Ian Tyler: I'm not sure how to answer the first question. I think we have been waiting 20 years for the PPP market in America to develop, so the idea of comparing that to the bid pipelines of the construction business may be slightly odd. There's not a huge number at the moment of large PPP projects in the US, so it's difficult to form a real view on that. Inevitably and again even within the US some of the very large building projects have very long lead times attached to them. In the main though the sort of traditional construction projects, be they building or infrastructure projects, will have a slightly shorter lead time in the US than the UK and PPP projects by their very nature will generally speaking take somewhere between one and two years to come to fruition once they really get underway.

Duncan Magrath: Perhaps I will just add to that. I think there are on the highways market in the US there are at least three large projects that we will be bidding in the current year. Interestingly one of those is down, they've sort of hedged their bets it's going down both a design build route and a PPP route because the state hasn't quite made its mind up quite how it wants to fund it and therefore actually bidders are required to bid under both bases, so as an example, but when I was talking earlier there are actually opportunities that will be bid this year, so that's the sort of timeframe of those sorts of opportunities to Ian's point actually how long a bid process takes when inevitably they get dragged up in local politics and everything else.

Ian Tyler: All PPP processes are lengthy anyway. PPP processes for those clients that are going into it for the first time which will generally be the case in the US will be longer still, so those projects will have a very long lead time to them I guess as best we can tell.

Duncan Magrath: I think your second question was around UK market and challenging. I think just again perhaps from our perspective I think in the UK construction market there's still a reasonably active regional building business that we've had in terms of good order intake. I think it's probably if we say it's challenging it's the lack of larger opportunities on the major infrastructure projects at the moment which tends to attract the higher margins and better cash profiles looking forwards that we're bidding and that's probably the concern. They are inevitably down in the more regional, smaller scale projects. The market is very competitive.

Olivia Peters: Thank you.

Operator: As a reminder ladies and gentlemen to ask a question today please press *1 on your telephone keypad. If there are no further questions at this time I would like to turn the call back over to you gentlemen for any additional or closing remarks.

Duncan Magrath: Thanks very much to people for dialling in. Obviously Basak and I are around if anybody has got any follow-up questions either by email or by call, but thanks very much for calling in today.

Ian Tyler: Thanks guys.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.