Balfour Beatty

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Full Year Results Presentation

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Balfour Beatty

Leo Quinn, Group Chief Executive

Phil Harrison, Chief Financial Officer

Questions From

Joe Brent, Liberum

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Introduction & Key Highlights

Leo Quinn, Group Chief Executive
Welcome to our 2017 results presentation. What I want to do is I'm going to start off and before I talk about the highlights it's worth putting these in context really to understand just how far we've come in the last three years. And the thing that's really of note is that in 2014, nine months into the year, we had £600m of negative cash outflow, there's probably a double negative there. And if you look at the results in the light of this they really are quite spectacular.

The other thing I'd point out is that going back to 2014 we announced the self-help plan. And that was that we're doing to do this transformation without reverting to the banks or the shareholders to get us through this, not fully understanding where the bottom is. And I think that's worth having that picture in your mind as you start to think through what these results say and show.

So from a position of minus £600m we finished this year with £335m net cash on the balance sheet. We also have £1.2bn of infrastructure assets on the balance sheet as well, which actually haven't changed in the last 12 months. We had a spectacular result with the sale of the M25 and I'll touch on that a bit later, bringing in £207m, an asset that could easily have been sold at any time over the last three years.

As a result of all of this our profits have doubled over the last 12 months, our order book remains strong at £11.4bn and has in it better margins, but much, much better risk profiles. And I think that's what's important as you look to the future and obviously our confidence in that means that we're going to continue to drive a progressive dividend within the company.

So net-net, you know a great set of results and a real credit to all of our 30,000 employees across the world.

Let me talk about how we're looking at de-risking the company and let me give you an analogy. When you look at those results I think of it as the top of an iceberg, it's the 10% that you see. But the quality that you're actually engaged with here is really the 90% that's below the surface. And it's all this stuff that's going on. And you can think of it as sort of being relentlessly boring, but that's what it's all about. And if we get this right the results just happen, they just fall out.

So what are we doing? And what we're doing is we're looking, we're de-risking this company. And if you compare this with other company strategies his is really common sense in the making. Geographically we are concentrating the company going forward in Hong Kong, the USA, and the United Kingdom and all our efforts and our assets are going to be moved into those areas.

In order to facilitate that over the last three years we've exited the Middle East, Indonesia, Australia, and in the last 12 months we've delivered our last hospital asset in Vancouver Canada and we're now exiting delivering construction in Canada, although we're going to maintain three assets in that area. So we're de-risking ourselves geographically.

If I go to the right hand side and look financially we've got a strong balance sheet, and although you can see the numbers we're also de-risking that. And the de-risking started two years ago when we had a £700m revolver, we reduced that to £400m. In the last 12 months, to date, we've paid down the first tranche of our private placement, we bought £39m of our convertible back, at a discount believe it or not, which is interesting.

So what we're looking at is we're continuing to pay down debt so that we have less exposure to debt on the balance sheet. And our commitment over the next 12 months is actually paid down the revolver as well. So again, you know, that's coming from a position of strength.

If I look at commercially what we're doing we're becoming much more selective in what we're bidding. And the selectivity really is around the type of contract we're entering into. You know we're not prepared to pick up and take on blind risk and in effect the type of contract that we're engaged with in HS2 and a lot of infrastructure is the NEC option contracts. And again, those are a much, much smarter way to work.

So we're de-risking ourselves in terms of the commercial liability we're taking on with our contracts. If you get the contract wrong there is not a lot you can do to fix the problem afterwards, so getting it right up front is really, really important.

And then finally operationally, I'll talk about this again later, but we've our gated lifecycle process, we've got Project on a Page, we've got Cost to Complete, we've got Digital Briefcases, what we've really got is a culture of transparency, where what we're trying to do is make sure that everybody has the same information. We have an open dialogue and we have a candid discussion around, do we really understand the risks in this job and can we price that risk and then get a fair return? And if we can maintain that culture that's the single most important thing in the company to ensure that we all know what we're dealing with and where true north is.

So from a company point of view what we're doing is we're building a culture that's going to underpin growth in profits in the future. So we've de-risked ourselves geographically, we're de-risking ourselves financially, commercially we know the right things to do, and operationally we've got an open, transparent culture to make sure that we know what risk we're entering into. And that's really the foundation of the company going forward.

So I'm going to hand over to Phil and Phil will talk to you about the numbers.

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Financial Review

Phil Harrison, Chief Financial Officer
Thank you Leo. Just for some of our banking colleagues here, it’s not the revolver it's the convertible by the way.

. . . .

Leo Quinn, Group Chief Executive
I apologise.

. . . .

Phil Harrison, Chief Financial Officer
Just so that you don't rush out and panic.

Laughter

. . . .

Leo Quinn, Group Chief Executive
Our revolver is undrawn, that's the point I should have made.

. . . .

Phil Harrison, Chief Financial Officer
Good to see you all, let's look at the headline numbers; as Leo has said, and I reiterate, a strong financial performance for the year. I'm particularly pleased with the profit from operations increase and the average net cash during the year. I'll go into more detail on the next few slides.

Given this strong performance the Board has declared a full year dividend of 3.6p, a 33% increase on prior year.

Turning to profit from operations, the Group reported a profit of £196m, which contrasts with £69m in the prior year. There were year on year improvements in all of our businesses. Our Construction and Support Services businesses showed excellent progress and we are on track to meet our guidance on industry standard margins.

Our confidence is underpinned by the fact that we have completed the bulk of our underperforming historical contracts, we continue to realise productivity and cost saves across the operations and we have a better quality order book.

For our Investments business, the profit was higher due to the successful partial sale of our Connect Plus M25 asset.

If we move to the order book, as you can see the overall order book was down 8% in the year, 3% at constant exchange rate, the £11.4bn balance is directly in line with half year numbers.

The Construction order book decreased by 11%, 5% at constant exchange rates as increased orders in the UK were more than offset by lower bookings in the US and Gammon.

At Support Services, the order book was stable at £3.1bn as growth in Transportation was offset by an expected decline in Utilities.

The Group continues to focus on raising the quality of the order book, as an example in the UK regional business a year ago the order book was 50% fixed price one stage bidding, it is now less than 20%. This is consistent with the Group's aim to reduce contract portfolio risk.

The business won a number of highly significant contracts in 2017, most notably two packages for HS2, valued at £2.5bn in a 50/50 joint venture with Vinci. Please note that these will not appear in our order book under late 2018, early 2019 as we're still in the 16 month early contractor involvement phases on both contracts.

After year end the Group won the £2bn LA Airport automated people mover contracts, where we're a 30% construction joint venture partner, as well as a 27% shareholder in the investment vehicle.

Now let's look in more detail at each segment starting with Construction Services. Here we returned to overall profitability as we continue our financial recovery after three years of losses. The US business reported an underlying profit for the year of £41m at a margin of 1.1%, within the Group's target for this business. We continue to focus on

managing the business to improve our targeted margin returns. Market conditions, we believe, remain favourable to do this.

UK Construction has made substantial progress from a loss of £65m in 2016 and we are reporting the full year profit of £16m. This is mainly due to rigorous management of our current portfolio and the completion of the majority of our pre-2015 historical contract base. We therefore remain confident of achieving 2% to 3% industry standard margins in the second half of 2018.

In Gammon revenue and profits were both up, during the year two material contracts moved towards satisfactory conclusion. We reached an amicable settlement on the Midfield Terminal without the need for arbitration and the West Kowloon Terminus North project is now close to completion.

Now moving to Support Services, as you can see on the slide profit for the year was £41m, a 20% increase on prior year. We saw year on year improvements in Utilities, gas and water productivity improved as it benefited from being mid-cycle in the regulatory period. Power Transmission saw a benefit from cost savings in the year and Transportation was broadly stable in the period.

Overall, Support Services reported a 3.9% margin. We continue to work towards the higher end of our target range as we look to benefit from improving financial performance in the Power Transmission business and the Gas and Water business continuing to benefit from the middle part of the regulatory cycle.

If we now turn to Infrastructure Investments, there have been increased profits at both an operating level and gains on disposal; the most significant event in the year being the partial disposals of our M25 Connect Plus asset. For this asset we received a value 25% above previous market transactions and in addition the sales price was above our own Directors' valuation. As you can see full details are highlighted on the slide.

The Group continues to seek opportunities to invest in high quality projects with good returns. We will continue to time asset sales in order to realise optimum value to shareholders.

Turning to the Directors' valuation, we can see that the overall value is stable at £1.2bn in the period, just slightly up actually. The Group invested £35m in new and existing projects, this reflected continued success in targeted sectors, with three new projects included in the Director' valuation for the first time. We expect to invest around £60m this in the business. Cash yield from distributions amounted to £53m as the portfolio continued to generate cash flow to the Group, net of investment.

The business continues its strategy of maximising value through the sales of operationally proven projects. However, we maintain an interest in a number of projects where we see opportunities to the wider Group. In total £105m of proceeds were received in 2017.

As you can see the unwind of discount was £97m. There was £106m benefit from the change in federal tax rates in the US and in other a £56m reduction, due to the rise, or predominantly due to the rise in the value of sterling.

I would now like to update you on our position with regard to Aberdeen. The project was won in 2014 and since then there have been delays with utilities and adverse weather conditions throughout the project. We are determined to achieve completion on this project as quickly as is possible. As a result of Carillion's liquidation we and our remaining JV partner are now jointly liable to deliver Carillion's remaining obligations on

this contract. In addition to each partners existing 33% share this means we are now liable for 50% of the obligations on Aberdeen.

Our 2018 cash outflow remains in the range announced on the 15th of January. To help you with the sums the £35m to £45m we announced that day was the additional cash outflow picking up our share of Carillion's stake being 16.7%. Therefore on a full 50% basis we had envisaged £105m to £135m outflow at that time. Today, covering our full 50% obligation it is expected to be around £105m to £120m. The revised estimate it based on completing the project in the summer of 2018. Any drift in schedule will result in further cash outflows on this contract.

In our 2017 full year results the Group has recognised a one off, non-underlying loss of £44m, which reflects the Group's additional loss on the contract as a result of Carillion's liquidation.

If we move to full year cash flow, we saw a very good cash performance for the Group, with average net cash of £42m for the year, compared to average net debt of £46m in 2016. The Group had positive cash flows generated from operations of £41m in the year. The £188m improvement is largely the result of the continued recovery in the Group's Construction businesses. The total cast movement in the period resulted in an increase to the Group's net cash position to £335m, excluding non-recourse debt borrowings.

Turning to working capital on the right hand side, you can see the details behind an inflow of £27m. Trade and other payables decreased during 2017, creating a working capital outflow of £92m, offset by a working capital inflow of £95m from trade and other receivables. We continue to exercise tight management control on a day to day basis as cash remains our priority.

Importantly for 2018 we see average net cash in the range of £120m to £150m.

Before I move on to the balance sheet two other points of guidance, firstly net interest expense which I expect to be higher in 2018 as a result of reduced shareholder loan income following the 25% Connect Plus M25 disposal. In 2019 following the repayment of the first tranche of US PP and the full repayment of the convertible bond, we expect interest expense to fall below the 2017 level.

And secondly taxation, following the reduction in US federal tax rates we expect the effective tax rate on our US profits to be around 26%. In terms of UK tax, in the short term we expect the effective rate on our UK profits to be around half of the UK statutory rate.

Finally the balance sheet, most of the key items have already been covered, it's worth remembering we hold the investment assets on our balance sheet at book value, rather than at the Directors' valuation that I spoke about earlier. I think one item to highlight on this slide is net retirement benefit, which on an IS 19 basis has moved from a £231m liability to a £32m asset. This is driven by positive movements on pension assets of £148m and changes in actuary assumptions, including discount rates that have reduced liabilities by £94m.

In conclusion all businesses are making progress on reaching their profitability targets and we continue to maintain a strong balance sheet, underpinned with average net cash and an investment portfolio of £1.2bn.

That concludes the financial report and I'll now hand you back to Leo.

Business Review

Leo Quinn, Group Chief Executive
So, I'm sure you're familiar now with Build to Last. The good news is that you'll probably see this for another 10 years.

Remember, the whole purpose of Build to Last is Balfour Beatty's been around for 100 years, this is about putting a foundation in place for it to be here for the next 100 years. So it's not a sprint, this is a marathon. It's day in, day out, improving every day across the business.

You're aware of the Lean, Expert, Trusted and Safe, and let me give you an update on where we. This is worth spending a few minutes on because this really is the whole foundation of the future platform for the company.

If I take you to the top left hand side, first and foremost we talk about Lean. Very simply it's about cash in, cost out, and how do we make sure that our investments within the company allow us to yield more productivity improvements in the future.

You can see the yellow, or the orange line, compared to '14, '15 and '16, and you can see how we continue to make progress to flatten that line out in order to ensure that our cash and our profits start to match.

Going forward, we're starting to get so many lines on this chart now that what we want to look at is actually debt and how we paid our debt, because that's really the true measure of whether we're generating cash or not.

The other area of cost out in the last year, we took another £30m worth out of our cost base, that's on top of the £123m that we took out in the first two years. And, on top of that, we still continue to invest in our infrastructure. So we're continuing to move the R12 platform through all the businesses in the UK. We now have all of our payroll on R12, and that's driving efficiencies in the back office.

In the US, this year, January, we launched a single instance of JD Edwards' platform across the whole of the US organisation. You put those two things together, those are two big engines that our business is sitting on, and that gives us more real time information, better transparency, quicker decision making. And that's going to be important because, as we drive forward into next year, and the next year, we're going to see more and more costs coming out of the company in the overhead, as well as better financial reporting and better transparency. So really, really important that we get these things right.

In the area of Expert, this is real simple. We're moving into an era whereby demand way outcedes supply. So it's about how do you capture and retain the best employees. And this is a decade of employment for people.

The first thing is, if you want to keep people you have to have great leaders, so we're constantly upgrading our management. In the last year we upgraded three senior people who report to me. In the case of our Services business in the UK, Mark took on the overall Service responsibilities, so he now has Rail, Power, Gas and Water reporting to him, and that's a real improvement for us.

In the United States, we have a Buildings business, which is about 3.5bn, and we have an infrastructure Civils business, which is about 700m. Contrary to those businesses,

and very, very different; one is very fast-moving and responsive, which is our Buildings business, and the Civils business is more process lead, more bureaucratic in terms of its bidding process.

What we did is we removed the top president from the US and we put two leaders in charge, one of Buildings and one of Civils.

The good things about those three appointments I talk about is that all of them are from within the company, and I think it's really good to start seeing how we're moving talent through the company. And, you know, some people we promote succeed, some don't, but what we do is we make decisions quickly and we move on, but we're constantly upgrading and improving.

Also in the area of attrition, I know we're got the £44m write-off from Carillion and the Aberdeen Road, but what's really important is on three ventures we acquired 150 Carillion people who are experts in infrastructure and roads, and we brought those into Balfour Beatty, and that actually adds to our talent pool. It's a great asset. And the reason it's a great asset is, if you think about in the infrastructure market, a really capable person will generate a revenue of about £0.5m a year, and, if you add that all up to a revenue stream, that's a very attractive business that we've managed to acquire over the last few months in terms of taking those employees on. So that's really, really important for us.

Moving on, if I also just touch finally on the future, and I've said we're going to need more people, the 5% Club for us is still very important because, as you saw from the video, we've got 1,000 graduates working for us across the organisation. Bringing on training, retaining these people for the future is going to paramount to us to be able to deliver the revenue that actually is required going forward.

In terms of Trusted, this is really about doing what we say we will do. And, although we measure customer satisfaction, in this area, this is really our whole governance process. It's about our gated life cycle; it's about the culture I talked about in terms of candour and transparency where risk is openly discussed.

It's really important here that this is now ingrained in the company across the global organisation where everybody complies with this. And, therefore, what we're getting is a better insight into the risks that we're taking and the way we're pricing that risk. So, for us, Trusted is really important because it is our governance.

And then, finally, in the area of Safety, you know, we all talk about this, but it is genuinely our licence to operate. If you do not have a good safety track record you won't even get the opportunity to bid. And, what we're seeing here is, first and foremost, our LTIRs are actually reducing. We're seeing that the number of observations arising, which means our employee population is engaged, and actively engaged.

We're also looking in this area that we trained 24,000 people in Making Safety Personal in the last year, including our sub-contractors and the likes of that.

And then, strategically, as we think about, as we go forward as a company, we have a strategic called 25 by 2025, and that is how do we take 25% of the work we do onsite today offsite? And that's in order to deliver a safer delivery, but it's also lower cost and higher quality. So it's really important to understand that safety, in itself, has all of these other benefits that come with it.

If we can get all of these things right and make sure they get ingrained in our culture, you know, high quality, leadership, good cash management, driving productivity, a

trusted delivery in terms of our promises, and a safe working environment, those are all the things that underpin our future strategy in the infrastructure market.

And we have a success record in infrastructure, and here are two examples that we'll share with you.

Everybody's talked about the sale of the M25, and Phil's stolen my best lines, but this is truly an exceptional piece of business over the last eight or nine years.

Our initial investment was probably well sub of £100m for the whole asset, and we've actually managed to sell this 25% of the M25 for £207m.

I think what's key is we could have sold this asset two or three times over the last two or three years, and last year there was a number of people that sold their interest. We decided not to play in that because we felt the asset was worth more. And, by waiting 12 months, we've actually got a 25% premium over the previous sale of those assets.

Also, we retained 15% in this asset and, further, we still retained a 25 year service contract that comes with the asset. So, really, for us, all we've done is sold that particular asset. And, again, this conforms with our model that it's about using our spare and surplus working capital to invest in assets that then give us a return. We make the optimal return when we actually combine our project financing capabilities with our construction expertise and with our service delivery.

And, if you go to the next job, which effectively is the LAX People Mover, this is where we've combined those capabilities and skills. We're not involved in the on-going service in this particular contract for very specific reasons.

The LAX People Mover is about 2.25 miles long. It's taking people from the car hire rental area into the airport in order to relieve congestion. They'll handle about 30 million passengers a year. This is actually a $1.9bn Design, Build, Finance and Operate for which we've got the shares of 30% in the construction contract, and 27% as an equity partner in the financing.

This is our first US PPP, and I'll show you on the next slide that the US market is, from a PPP point of view, is much more important to us that the UK one today.

What's important about this particular one, it's a four-way joint venture. All of the joint venture partners, Fluor, Dragados, Flatiron, that we've worked with in the past, and that relationship in integral to being successful on this project. Further, winning of this plays to our strengths. First and foremost, our project finance skills, which have come from the UK, transferred over to the US, are being used and built on over there. The core geography of California is a big area for us where we have a lot of people on our payroll, and we've been there for a long time, and this actually capitalises on our local building expertise, our local Civils expertise, and then, of course, our US Rail expertise. And you know last year we announced the Caltrain electrification project. So this is a great example of Balfour Beatty really at its best.

If I look at our asset portfolio, there's a couple of important statistics on this chart, and first and foremost, if you look at it, we're about 50/50 US/UK. Secondly, over 80% of our assets, if you look down the bottom, £1,089m are operational, up and running, so we're yielding cash flows from them, and have experience of running them over a number of years. So it just shows how mature our portfolio is.

Secondly, you can see how, over the last two or three years, we've actually diversified and reduced our UK presence, and increased, almost doubled our US presence.

The other thing, if you look at the detail of our US/UK presence you'll see that we've actually sold off all of our school assets. We've sold off most of our hospital assets. So, in effect, politically, this is a sort of a de-risked portfolio, and I think that's worth highlighting.

If I move on to Infrastructure generally, and now I'm talking about the Construction. I don't apologise for using exactly the same chart as I did last time because nothing's really changed. So, if you look at Balfour Beatty in the US, our direct revenue in infrastructure is about $1bn. If I look at our direct revenue in the UK it's about £1bn. In the US we've talk about before, the FAST Act is $300bn, the National Transport Bond is $200bn, you've got the California Education Bond, $35bn.

The point here is that this market is so large that the market is not the constraint, so you've just to be selective and work out where you're going to play and, as you know, we've picked our geographies and we've picked what we're going to deliver. We're going to deliver water, we're going to deliver rail, and we're going to deliver roads, and those are the only things we're going to play on.

So, in effect, the market is not a constraint in the US. In the UK, you add all those up, it's about £100bn. Again, it's an enormous market and we can see - I'll show you a bit more detail in a few seconds here, but, again, market is not a constraint, it's a question of what is it you want to do and what returns do you want to get for that? And we're, even now, starting to see, with some of the filibustering in Hong Kong, paling off, that more infrastructure projects have come into play in that area as well. And so a very exciting, attractive, market for us.

If I drill down one more level into the UK, and this is a Network Rail chart, but if you look at here, what you're looking at is eight years of growth. By the way, it doesn't stop in 2014, so when I refer to a decade of growth it means that it goes beyond that particular chart. So, fundamentally, in the area of Energy, we're working in nuclear, Sellafield, we're working at Hinckley, so we have a big footprint in that area. Hinckley would be over £1bn in its own right.

In the area of Water, we do about £300m a year in service, and we're doing the infrastructure and capital replacement programmes as well.

If you look at 2020, and you look at Highways England, diagrammatically, that almost looks like a 60% increase, and that's actually real. The problem is how does Highways England, with the capability in the UK, actually deliver all of that over the next three years? It's going to be very difficult. And, you can see from that, the attractiveness of having 150 people additional to your workforce is a fantastic asset, combined with our capability.

If I look at Heathrow, it's on a slow burn. We have a major service contract with Heathrow; our office in London is set up beside Heathrow. That's going to be a major customer for us in the future.

TFL, we do all the maintenance on the Underground, and that's a good steady contract. It is coming up for rebid soon, so hopefully we'll be there in the future.

HS2, which I'm going to dive into in a lot more detail in a few seconds, you can see, is a big opportunity over the next decade or so.

Crossrail, we'll be finishing up, hopefully, the end of this year, and then you've got Crossrail 2 as and when it materialises.

And Network Rail is going to be a challenge because that's going to tail off, but, and the mix in Network Rail's going to change from Projects to Maintenance, and Maintenance Improvements. So CP6 is going to see revenue downturn in that area. And, in some ways, for us, our Project business will actually downturn but our Plant Hire and our Services business will pick up. So it'll be a mix.

Net-net, this is an extremely attractive market, and it's right in the core of Balfour Beatty. This is a little bit like the CEO in the right place at the right time.

If I look at HS2, you can see there, the rail map on the left hand side, and what we're looking at here is you know we've won Phase 1, N1, N2. Phil said that those won't be awarded until the end of, or the beginning of '19, we've been awarded an ECI, which is the early engagement where we're putting together a price. All of our costs are covered in the process of doing that, and we're going to put a target price out there which should result in a £2.5bn order for building the railway around the Birmingham area. That's going ahead well. It's very, very demanding, it's very tough putting it all together in the timescale, but we've got a very, very good team.

But then what's interesting and exciting is all the other things which are coming down the pipeline. We're actively bidding on Old Oak Common Station at this moment in time. That's a £1.3bn management contract where we're not actually doing the delivery but managing, with the client, the delivery of that station.

We're also looking at the rail systems. This is about £2.5bn. This is the entire slab track rail and electrification of the whole line. It's budgeted at about £2.5bn, and I point you to the ticks on the right hand side. We've got capability in terms of the Civils, the Rail the Power and the M&E, which means we've got the whole portfolio to bring to that. So have a very strong case.

In the case of the Birmingham Station, another £1.3bn, and then Birmingham to Crewe is, effectively, the section which is north of the section that we've won today. What's unique about that is it's, I believe, it's only the people that have won the current sections will be allowed to bid for that remaining section, which means, hopefully, prices will be much more sensible and risk will be much more better managed.

If I add all of that up it comes to circa £11bn. Just assume that you get half of that, that's £5bn, over 10 years that's £500m a year. That's a material business that you've acquired overnight, and you're going to need people to deliver that, so there's going to a real competition for the talent.

So our strategy around Expert and creating a great place to work is fundamental in our ability to attract and retain the best and the brightest to actually deliver this opportunity. So, as I think about, I think a great future and I can feel fairly confident about what's coming down the pipeline.

If I look at our outlook, again, we delivered on our commitments in Phase 1, Phase 2, we haven't changed anything at all, it's about industry standard margins in the second half of 2018 as we've put up there. And, beyond that, I think we're going to get to the point where we'd actually be striking up industry leading margins, and I can feel, or see, a path to that quite constructively.

So, in summary, strong operational controls within the company. You can see how we've built a very strong balance sheet over the last three years, probably the strongest balance sheet in the sector. We've got proven leadership. The guys that run the company today have taken this company from where it was four years ago when we

have our self-help plan, and they've made it what it is today. That's a tremendous achievement, so they are - If you were at Cheltenham today, that would be a good horse to back.

And then we've got a focused strategy about delivering profitable growth, and we're recapitalising on a, what I think, is our expertise in the company into a growing infrastructure market. And we all know that on a rising tide all ships rise so, as I say, I think the company is in a very good place in every aspect at this moment in time.

So, on that note, I'll pass over to questions.

Joe, here you go, here we'll go to get you a microphone.

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Questions and Answers

Joe Brent, Liberum
Three questions if I may, maybe do them in turn. First of all, on the Support Service margin, good progress there in the year. Where do you think that can get to? Okay.

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Leo Quinn, Group Chief Executive
One at time then. So, I think our 5%, I think, as Phil said, the upper end of the 5%, but I think it's fair to say is Phil always airs a little bit on the conservative side, so I'd say 5% plus a little bit.

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Joe Brent, Liberum
Thank you. And, on the hospitals, am I right in thinking £36m healthcare asset is the two hospitals? Are you optimistic you can sell those during this year?

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Phil Harrison, Chief Financial Officer
Four assets, Joe, in Healthcare, two of them are hospitals.

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Leo Quinn, Group Chief Executive
Yeah, are we confident we - Well, I think, with all of our assets, it's we'll sell them when we think the time is right. They're clearly saleable. What we want to do is make sure, as with the M25, we maximise the value from those sales. So, for us, it's as much about timing as it is anything else.

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Joe Brent, Liberum
And, finally, if I may, on the PPP portfolio, the US has become a more important part of the mix. I think it says it's currently around 50%. Could you see that growing as a share of the mix relative to UK, and what sort of level do you think the US might end up as part of the portfolio on a three to five year view?

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Leo Quinn, Group Chief Executive
I've got Ian Rylatt who runs all that sitting in the room, and I might give him the microphone and let him answer that.

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Ian Rylatt, CEO, Infrastructure Investments
We do expect it to continue to grow. I'd probably expect it to end up being about 60% to 70% of our portfolio in about three years' time probably, and that largely reflects continued opportunity to dispose of assets in the UK which, going back to what Leo says, we will do to maximise income, countered with the opportunity for new investments, which is there are greater opportunities in the US than there are in the UK.

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Leo Quinn, Group Chief Executive
And I think, building on that, in this moment in time, PF2 is really unclear where it's going. We have a limited amount of equity, and what we're going to do is apply that equity in the markets that are most attractive, which give the best returns. And I think the US is the leading horse in that at the moment.

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Gregor Kuglitsch, UBS
Can I go back to a comment on margins and going beyond industry average, which I think you're, presumably, talking about the mid-point of your guided range, and you're becoming a bit more vocal that this may happen perhaps in '19 or beyond, so if you can give us a sense, what is the best case here? Is it 100 bps better? I don't what you perhaps quantify it to the basis point but some kind of direction if you can give us a sense of what you think is achievable in the core three businesses?

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Leo Quinn, Group Chief Executive
I think the key thing is, let's put this in context, industry standard margins in the second half of 2018, compared to the losses and not knowing where the bottom was in 2014, is astonishing progress. And I think if you look at how the portfolio has changed over the last three years in terms of the quality of the business and the challenging contracts that we've got, just add back Aberdeen for example, and you can see some quite constructive margins there can't you, which would be probably on the upper-end of industry standard, but that would be '19 onwards.

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Gregor Kuglitsch, UBS
Okay, and then, now your average net cash you're guiding for building of that position as we go into this year, you've clearly got strategies, M&A is not really part of that strategy, what's the plan when that number starts becoming substantially above what you require to be needed for the company? What's the plan with the cash flow? I mean, clearly you've got a progressive dividend, but that's relatively small. Is there another route perhaps, buy backs or something else in terms of special dividends to return cash to shareholders?

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Leo Quinn, Group Chief Executive
Look, I think, number one is if we have attractive investment opportunities, as Ian pointed out in investments, that's where we want to apply the capital because that means we can get the best return for our shareholders. There's always that marginal call is that paying down our own debt first and buying back shares, which is the best way. I don't see us going out and doing acquisitions to grow the company, but we are acquiring PPP assets, and that does require equity. So we're committed at this moment in time, in the short-term, to paying down debt.

We have a progressive dividend, I agree with you 100%, it is relatively small, but I think there's the propensity to over dividend in the market, and what I'd rather do is ensure that we've got a strong balance sheet which allows us to bid for the right sort of infrastructure jobs into the future.

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Gregor Kuglitsch, UBS
And maybe one for Phil. So you've hopefully given us the cash for Aberdeen, is that it in terms of that legacy? What's going to unwind, because, obviously, you're now pretty much there this year presumably? What's the residual cash out for all the legacy stuff?

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Phil Harrison, Group Financial Officer
It's small now; it's around £10m on the rest.

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Gregor Kuglitsch, UBS
Okay, cheers, thank you.

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Andrew Nussey, Peel Hunt
A couple of questions again, if I may. First of all, sorry to go back to Aberdeen, but in terms of that cash guidance, that's to complete the project hopefully in the summer. Have you made any assumptions on claims back in that number?

And, secondly, Leo, you touched on, or your phrase was – more and more costs to come out of the business – I think previously you talked about the use of technology, but just other areas where you might be able to see some operational improvements?

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Leo Quinn, Group Chief Executive
Yeah. Clearly, it's a very sensitive matter but there is a substantial entitlement in respect of Aberdeen. Like these things, these have to be justified, explained, and they go on for a long time, so, obviously, we were very conservative in our assumptions in that area.

In terms of more and more cost out, as you know, three years ago our overhead cost was about £550m, we've taken circa £150m out of that, but we have invested very heavily in IT infrastructure, and also data analytics and the likes of that. So we're seeing an awful lot of benefit from electronic invoicing, for example. 80% of our invoices come in electronically; they are not touched in the processing. That was like 3%, 4%,

three years ago. So we're driving all of these things in terms of digitising what we can, but we measure success not in terms of the programmes we can initiate but what cost does it take out what money does it actually save us?

I don't know if you'd like to add on anything on that, Phil, at all?

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Phil Harrison, Chief Financial Officer
Just, I suppose, just on Aberdeen, that doesn't have any claims.

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Stephen Rawlinson, Edison
Please may I ask two questions? Firstly, there's been quite a reversal on the pension scheme; it's up a triennial review I think next year. Is there any scope there in your minds, at this stage, to lower or eliminate the cash contribution that you make?

And, secondly, you touched upon your own capacity internally to recruit people, etc, to deliver the sorts of projects that you'd like to deliver, but you didn't really touch up the sub-contractor base. Are there any comments you could make at the moment, please, with regard to the strength of that, and the way in which you need to use others to achieve these projects in the light of Brexit and other uncertainties that exist, particular in the UK I guess is where I'm thinking of rather than about anywhere else?

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Leo Quinn, Group Chief Executive
I'll do your question on sub-contractors first and then you do the pension. Is that okay? First and foremost, we have a very active programme. One of our values is around collaborate relentlessly. This originated from the fact that three years ago, inter-divisionally, we had contracts worth three times the size of the contract we had with the customer, and a lot of our inter-company receivables would each claim, division claiming off one another. We have none of that today. Our books are clean internally in that way.

So this thing about collaborating relentlessly is, for Balfour Beatty, we face the customer with one person and our divisions underneath are all part of the same job and they share in the upside or the downside. So we work as a team.

We've extended that now to our commercial base, which is actually our design consultants, so that, in effect, we are now working with them in a way that we have standard pricing, we work with their teams that we know very well, and we have a single contract across all three. And that's something I've never been able to achieve in the past, but that means it's far easier to actually contract with those designers.

Now, what we're doing is we're now taking that same strategy to our sub-contractor base, and we all know that 80% of our business is delivered by 20% of our sub-contractor base, so what we're doing is we're looking through – is how do we actually get very close to them? How do we work with them? How do we support them? And how do we actually make then an extension of Balfour Beatty?

So that really is a key strategy for us, and I think it's a very good question, and if you ask me in 12 months' time I'll tell you just how successful we've been. But the fact is we've already started that, and I think it will be a major competitor advantage, in the same way we work with our designers, to deliver what is, effectively, an almost a wall-

to-wall delivery for our customers, whereby you've got the customer, the designer, Balfour Beatty and the sub-contractor base all pointing in the same direction, looking to deliver a successful outcome.

Pension?

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Phil Harrison, Chief Financial Officer
On pension we agreed, at the last triennial, with the pension fund, on a journey plan. So our intent there is to get to self-sufficiency by about 2027 for the company, and that's actually three years earlier than the previous valuation.

When we do the triennial, we'll look clearly at what the assets and liabilities look at, but I think, in balance, we much prefer to get this thing to self-sufficiency, and spend some money to get there, rather than take cash back out from the pension fund. Our view is let's de-risk that as quickly as we can.

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Leo Quinn, Group Chief Executive
Yeah, and I think it's really, really important. We've got a number of stakeholders, the shareholders, there's pensioners, there's employees, there's customers, and the last thing you want is not to balance fairly the distribution of wealth, and we're going to remain sensible about that. And, if we do that right, we'll end up with a better company as a result of it.

Terrific. If there are no more questions then I will thank you all for coming and I'm very pleased with the performance over the last 12 months and let's hope we repeat it, and better for the next 12 months. Thank you.

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