Company: Balfour Beatty plc

Conference Title: Trading Update Conference Call

Moderator: Steve Marshall

Date: Monday 29th September 2014 – 08h00 UK

Operator: Good morning, ladies and gentlemen and welcome to the Trading Update conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Steve Marshall, Executive Chairman. Please go ahead.

Steve Marshall: Good morning, everybody, and thank you for joining us this morning at such short notice. I'm going to open with a few comments, and then I'm going to hand over briefly to Nick Pollard, Chief Executive of our UK construction business. And after Nick's made a few comments, he, I and Duncan Magrath, CFO, will take your questions.

Now to state the obvious, I guess, this morning's announcement is particularly unwelcome given both its timing and its content, and I think the first thing to say is that nobody representing the Balfour Beatty team on this call this morning is going to pretend otherwise. As you will have seen, we're announcing that there's likely to be a further £75 million profit shortfall in our UK construction division. It is mostly centred on problem areas that we previously identified and discussed with you back in April and July for example in Engineering Services and in legacy major building projects in the London area. It's of no comfort at all, of course, that we've flagged these before and warned that risks do remain in these parts of the business, which we have done. But clearly the scale of these further risks now identified is significant. And as a result of these ongoing issues, over the weekend, we've instructed and have been working with KPMG to conduct an independent review of the CSUK business. The outlined terms of reference have been agreed and include carrying out detailed reviews at contract level, on operational performance, risk identification, and on project forecasting and reporting.

We need, obviously, to draw a line under this area of the business urgently so that the Balfour Beatty Group and indeed its investors can move forward and so KPMG will report back to the

Board before the end of the year, and we will be transparent about the conclusions of that report.

I'll now make a few comments covering the rest of the business and one or two other matters. Trading across the rest of the Group remains in line with expectations. The Investments division continues to perform strongly. Our first PPP disposal since we revalued the investments portfolio very recently is expected soon, and I can report that it will be at a useful premium to the recently revised Director's Valuation.

The search for a new CEO is well advanced, and we will make an announcement on that as soon as possible. I've indicated to the Board that I will step down once I've handed over my interim executive responsibilities to the incoming CEO and indeed we've appointed a successor to me as non-executive chairman.

Turning to the sale of Parsons Brinckerhoff, the circular will be issued during the course of October. In it we will say that the return of up to £200 million of value to shareholders will be made via a share buyback programme starting after we've announced our 2014 financial results. That approach, of course, will be subject to the Board's assessment of the business environment at the time.

And lastly, the final dividend for 2014 will be reviewed prior to the preliminary results announcement, obviously recognising the Parsons Brinckerhoff disposal. The Board will wish to establish a level of future dividend cover that will be appropriate for the business portfolio that we will have going forward. So at that point, I'm going to hand over to Nick.

Nick Pollard: Thank you, Steve. This is a bitterly disappointing result for Construction Services UK. As a leadership team, we're doing everything that we can to ensure that risks across all the contracts are being properly identified, mitigated and appropriately provided for, whilst on the other hand pursuing hard the generation of profitable revenue and opportunities. So some brief background and detail:- you'll see from the news release the profit shortfall has come from a further £30 million in Engineering Services, and we announced a £35 million profit shortfall from that division in July; £20 million within the large London area building projects, which are the ones that were transferred into regional construction earlier in the year; £15 million from the southwest and Wales regions; and £10 million in major infrastructure projects. Our focus as a management team is firmly on what we're doing to stem any further losses whilst rebuilding this business to take advantage of a progressive market recovery and thereby return the peer group margins.

In Engineering Services, we've appointed a new managing director. We're closing out the legacy projects, most of which are nearing completion; 19 out of 25 are due to conclude in 2014 and we're developing a strategy to rebuild the book of steady, profitable business on the back of a gently rising building market. In the regional business, of the 20 delivery units trading to the end of August, 16 delivered positive growth margins and we already announced in August that we are to restructure or close the other, unprofitable units. We are already engaged in employee consultations on those changes and redundancies and as you are aware, the margins currently in the regional business are not large, and that's of course why four delivery units can affect the profitability of the business so dramatically.

We've recently removed a layer of the management structure in the regional business, and we're working to further cut the overhead and simplify that business by increasing the average contract size through selective bidding. Bidding activity is being tightly controlled, and a common ERP platform is being rolled out in the business during Q4 2014, all of which will help us.

In our major infrastructure projects business, there have been cost revisions on a handful of projects. These reflect risks caused through recent changes in scope and complexity on the project where recovery of additional revenue from customers has not yet been agreed.

I welcome the decision by the Board to instruct KPMG for a review across this business. My team and I will work with them to ensure that we can provide the reassurance, and I can be very confident that everybody wants to make sure that we're well set to deliver shareholder value. There's one caveat only, which is that Steve mentioned in April that it would take 12-18 months to return this business to a solid footing. It's a big business; it's got a lot of contracts and it is going to take time. Further, I do know that we're doing the right things and travelling in the right direction. We must keep on picking up the pace. We must close out legacy contracts as quickly as possible and secure a consistently strong performance in every corner of this business. I'll hand it back to you, Steve.

Steve Marshall: Thanks, Nick. We'll go straight over to questions now and, as I said at the beginning, Nick, Duncan and myself will take those.

Operator: Okay, thank you. If you'd like to ask a question at this time, please press the * key followed by the digit 1 on your telephone. 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'll pause now for just a moment to assemble a queue.

Okay, we'll take our first question today from Will Morgan from Goldman Sachs. Please go ahead.

Will Morgan: Good morning. I have two questions at the moment, if I may. The first one is, I'm interested that you are now taking some write-downs in the major infrastructure projects which, I would have thought as a business, that would be more core to your skill set. I realise these are relatively low in the wider context, but if you could elaborate a little bit on the specifics of what the write-downs are, that would be helpful. The second question is a more general one, and I don't mean it to be flippant. But your appointment of KPMG to conduct a detailed review - it sounds like a lot of this review is looking into the profitability of contracts, etc. I would have thought a lot of this is really the core skill set that contracting companies should have in order to be able to profitably execute and deliver contracts anyway. Does this indicate that there has been a kind of breakdown of trust within the organisation, that you effectively are unable to rely on the analysis of local management etc to evaluate what is going on with the projects? I don't mean that to be an overly provocative question, but you can understand that it does raise a few question marks for us on the outside looking in. Thank you.

Steve Marshall: Yeah, I understand the question totally. Nick will pick up the question on major projects. I'll comment on part B.

Nick Pollard: Okay, major projects: there's a small handful of jobs where we've had change in the course of the couple of recent weeks, really, in some of these. We're reviewing that. Some of these were in JV with other parties, and it's quite clear that there are additional works and additional costs to be handled on those jobs. We've not yet, of course, in this timescale, been able to agree revenue with our customers. That's something that we will be working on over the coming weeks and months and until such time as that revenue is clearly likely to be secured, the position we've struck is the right one.

Steve Marshall: Okay, and on part B of the question, the appointment of KPMG, we have to speak plainly. The company has had a series of surprises, and it has been surprised itself. So it isn't about trust between any parts of the company. We've been working with Nick Pollard and his team all weekend. There's total transparency of information. The problem is, we've all been surprised by what has happened in this business and therefore, certainly I and the Board judge that the right thing to do to give the company the assurance it needs and frankly, the investors the assurance that they need, is to have an independent review, to make it a thorough one, to make it penetrate to project level and trace through the organisation judgements, information flows, all of those things, and to report back to the Board as promptly as possible and, as I said at the beginning of the call, as is our way, we will be as transparent as possible with investors in the light of what we receive in that report. So we are doing everything we reasonably can to draw a line under this issue and move the company on.

Will Morgan: Ok, thank you.

Operator: Thank you. Our next question comes from Howard Seymour from Numis. Please go ahead.

Howard Seymour: Thank you. Morning, gents. A couple from me, as well, if I may. Really just to start Nick—just a bit of clarity in terms of the regional, because you allude to the London issues as £20 million and then, obviously, there's a £15 million in terms of the southwest. On the last presentation on the interims, there was an outline of three unprofitable contracts in regional. Are they the London contracts in that they've been moved into that area?

Nick Pollard: Good morning, Howard. It wasn't that they were unprofitable contracts; it was unprofitable regional delivery units, and actually we're talking to exactly the same jobs and geographies this morning. But to the southwest, it's Wales, and it's Central London.

Howard Seymour: So what you said is that timing, in the context of the three, these aren't the three and therefore it's just a continuation of the issues on those. But it's all included in those regional aspects.

Nick Pollard: Yeah, that's right and sadly, that is the case. It's the same project and of course, we also told you on that last call that we would be taking steps to change our business mix in those regions to pull out of some of those markets and also to change our leadership team. We're well-progressed with all of those things at the moment. That's all in train. We have consultations running at the moment. There have been redundancies, and we are at the moment continuing to follow through that process with a view to closing it out before Christmas time.

Howard Seymour: Okay, thank you. Second question, really, was probably to Duncan. Duncan, is it possible to give us a figure of how much the average cash was in the UK construction business in the first half. I think you gave it as a sort of chart, but I can't find it at the moment and therefore what you'd be expecting for the second half. I assume it's just a further cash out in line with the profit shortfall, is it?

Duncan Magrath: Yeah, we've shown the working capital figures before. I haven't shown an absolute cash number by division; we don't tend to split it that way. But yeah, in terms of the assumptions around, we put in to the release that the average net debt for the year will be £500 million, and broadly, that the movement is due to this.

Howard Seymour: Okay, thank you.

Operator: Thank you. Our next question comes from Manu Rimpela from Deutsche Bank. Please go ahead.

Manu Rimpela: Morning, gentlemen. Can you hear me?

Steve Marshall: Yes, we can.

Manu Rimpela: Okay, two from me. Still continuing on the appointment of KPMG. Can you just help us understand what was the trigger to appoint them now and not three months ago or six months ago? And then the second question is, can you just help us split the £75 million profit shortfall to kind of those identified problem contracts, and then how much is in new contracts which you haven't looked at before? Thank you.

Steve Marshall: Yeah, let me comment on KPMG's appointment as I sort of did in the earlier question. But it is simply the case that, with this latest surprise from Balfour Beatty, it was essential to get an independent perspective reporting to the Board and confirming what we believe to be the case, which is that we have made full allowance for everything that we know about. But the Board requires reassurance at this stage, and we judge investors will require reassurance at this stage. So the trigger is no more complicated than that. You know, we've been, in our interim results, and in subsequent communications, consistently flagging that we were aware of residual risks in parts of the business and broadly, it is the parts that have generated this £75 million downgrade today. But the scale of it has surprised us and in that context, it did seem appropriate to us to appoint an independent review straightaway, which is what we've done.

The second question?

Duncan Magrath: Yes, just adding to the first question, just a bit more background as well. KPMG are, they do some co-source internal audit work for us. They had also been doing, looking at some work around project controls, particularly in Engineering Services, and so they are, they know our processes and procedures and therefore, it's an expansion of that work as well. So hopefully it can get underway quickly and just in relation to your second question, it's approximately two-thirds of the £75 million relates to existing projects or effectively delivery units, as Nick said.

Manu Rimpela: Can I follow up on the second question? Are the type of write-downs you are finding in the new projects similar, or are the not-previously-announced projects similar to the old ones, or has there been a change in the way you're seeing that the profit shortfall is coming in those projects?

Nick Pollard: So in terms of the projects that are now on our list of problem projects, the issues are broadly similar. They relate to operational issues in the field, a shortage of key resources or that under tender, a proposition that was originally conceived was ill-balanced or ill-judged in some way and is therefore at the end of those projects has given us problems. The major projects ones I mentioned are slightly different in that, as I said, those are technical changes, by and large, which are emerging on some jobs that we're currently engaged in and there's opportunity on some of those to turn that position round, but that will require a lot of hard work and it will require the agreement of additional revenue with our customers.

Manu Rimpela: Thank you.

Operator: Thank you. We'll now take our next question from Joe Brent from Liberum. Please go ahead.

Joe Brent: Good morning, gentlemen. I have two questions, if I may. Firstly, the guidance you've given relates to 2014, which is obviously the most immediate issue. But I guess most of us are probably trying to get some numbers out there for 2015 as well and a lot of the £75 million relates to this year. But is there a sort of starting point to reduce next year by the same amount, is that a prudent starting point?

Duncan Magrath: Yeah, Joe, you're right. Effectively the £75 million is largely on contracts that finish this year and therefore, the bulk of it should be a one-year item only. There are contracts that go into next year, against which there's going to be revenue but in some cases, where they're loss-making in the current year, there will be no profit or loss for them next year. So that will have an impact through next year. But obviously, these specific projects, a lot of them come to the end. There shouldn't be a follow-on impact next year.

Joe Brent: That's very good, thank you. Secondly on the buy-back, I sense that you're kind of leaving the door open to maybe change guidance on the amount you do or whether you do it at all. Could you outline the scenarios in which you would look to scale back a buy-back?

Steve Marshall: The simple answer is, the Board's current intention is to effect a buy-back programme. We make the comment, because it would be odd not to, that at the point of triggering a buy-back programme, after the prelim announcement, the Board's going to have regard to the circumstances as it sees them at the time. But the Board's current intention is to return value to shareholders.

Joe Brent: Thank you.

Operator: Thank you. Our next question comes from Olivia Peters from RBC. Please go ahead.

Olivia Peters: Morning, everybody. Just two questions, please. Firstly, I was wondering how comfortable you are with the 12-18 months' timescale for the restructuring of the UK construction business; and in that same vein, how long do you expect the KPMG review will take, or when will you get the results of their review? And then secondly, on recouping funds from projects at the large projects business, I was wondering if you had a sort of estimate of how much you expect to recoup there? Thank you.

Steve Marshall: Yeah, I mean the 12-18 month time indicator, which was I think something I said back in April in moving into this interim role, was an assessment even at the time, it was basically trying to say we have definitely lots of healing work to do in our UK business and we, in the period since, have been doing everything we can to move forward with that. This write-down is obviously eye-catching, but it obscures the work that is actually going on to heal the business anyway and it does obscure the fact that there are significant geographies, as we set out in our release, that are trading well and are not surprising - in the regional business, Scotland, the North, the Midlands, and so on. But clearly what has happened since does not diminish the 12-18 month period, and doubtless there will be work to do beyond that as well. I think the critical thing for the company and for the investors is, once we get through this year, to then see a recovery glidepath and whether in practice the journey to peer group margins is two years or three years, in detail I don't think anyone can attempt to be precise on. What we can be precise on is the work that is going on and, if we can start to demonstrate progressive improvement from next year onwards, I think that is the important thing.

Duncan Magrath: In terms of your question on recovery delivery, clearly we're not making an assumption around them, and I think in any year, you get pluses or minuses. So I don't think there's much point in putting a number or an amount we will recover because certainly at the moment, we've made an assumption that we're not.

Steve Marshall: And the KPMG review timing, as we touched on, they will report ahead of the end of the year.

Olivia Peters: Okay, thanks.

Operator: Thank you. Our next question comes from Andrew Gibb from Investec. Please go ahead.

Andrew Gibb: Morning, guys. A couple from me. Just going back to the buy-back point. That's clearly key for shareholders at that moment. We know the absolute money coming in from the sale of Parsons—we know the absolute number going to the pensions. Can we just understand why you still can't give a firm number in terms of the up to £200 million? I mean, I know you talk about assessment of trading environment at the time of the prelims, but clearly I think indicative of what you're saying, the trading conditions are improving, it's more about operational delivery in terms of what's caused this £75 million hit today. So can we just get a bit more clarity on the moving parts about why you can't actually give us a firm number on that buy-back, please?

Steve Marshall: Yeah, honestly, it's just very simple. Our current intention is to effect a buy-back programme. We are being cautious, I think, for reasons that investors will fully understand, which is that we just want to simply make the point that, ahead of triggering the precise amount and quantum and timing of the buy-back, the Board will want to have regard to trading circumstances at the time. But it's no more complicated than that. We just obviously, as a Board, have a sense of a note of caution in the current circumstances where we are producing surprises much more regularly than is ever appropriate and in those circumstances, we are being cautious.

Andrew Gibb: And just on the sort of overall, and clearly once the money comes in, the balance sheet's in a much better strength, but clearly you've got a big refinancing coming up in 2016—can you just tell us where you are on that at the moment? Have you started discussions with the banks? And how things are looking on that side of things, please?

Duncan Magrath: Sure, the normal process would be to start conversations with them during next year and try to do a refinancing in the second half of next year. So in relation to that, no, we haven't started the conversations. We had conversations with them recently because they've given consent to the PB sale. But beyond that, no.

Andrew Gibb: And just finally for me, just in terms of…you said at the interims and in terms of Construction Services UK, the entire business has now been reviewed. Clearly, as projects that have come to an end, other problems have been throwing up issues. Just in terms of understanding this £75 million, are you able to give the absolute number of contracts that that £75 million relates to, please?

Nick Pollard: No, I'm not. I don't have that information to hand, and to be quite honest, I'm not sure that counting it by individual contracts has any particular clarity or value. I think your first point, really, was the germane one in that, which is that a lot of these issues are driven by the fact that we are trying to close our legacy contracts to tight timescales at the moment. When you hit a bump in the road, when you hit a problem on one of those contracts, and an end date slides or you have to do some additional work because you find something was done wrong in a previous phase of the project, then that incurs extra costs and unfortunately, it is dumped on you at that particular time. We need to get through the back end of those legacy contracts and into the smoother water of more normal trading.

Andrew Gibb: Okay, that's great. Thanks.

Duncan Magrath: Just to give you one bit of colour, Andy, which may help, is just, all of the adjustments are, the vast majority of them are below £3 million.

Andrew Gibs: Okay, so it's smaller…yeah, that's great, thanks.

Operator: Thank you. Our next question comes from Gregor Kuglitsch from UBS. Please go ahead.

Gregor Kuglitsch: Hi, morning. Could we just have a summary of the UK Construction Services, what's sort of the expectation for revenues for the various sub-segments are and various profit or lack thereof associated with that, because obviously there's a lot of moving parts and just wanted to sort of summarise where regional now sits, the major infrastructure unit and the engineering services, just so we know where we stand. Then there's a follow up to that—how much of that loss in the UK, if you can just sort of perhaps summarise how much of those contracts then roll off so we can have a map or starting point for next year. The second question is on the debt side of things. Can we just perhaps have a reiteration that you don't see, obviously before the Parsons Brinckerhoff sale, that you think you're still fine on covenants. Clearly you're slipping into operating profit loss now, if you strip out the PPP business of some substantial scale, and just want to get some comfort around that. Then finally, on your comment around new management being, I think you were saying that you're at an advanced stage, can you just give us perhaps a little bit of feel where we are. I mean, is this a matter of weeks now, months, what kind of background we should be expecting? Clearly, I presume somebody with a construction background, but I just want to get some colour on that side of things as well. Thank you.

Duncan Magrath: Okay, Gregor, I'll deal with the first two and then perhaps Steve can deal with the third one. In terms of revenue and individual covenants, in terms of revenue, there's nothing particularly changed other than the regional business, there's a reduction of about £90 million in our revenue expectation for the current year, which actually drives about £5 million of the profit shortfall, which is a volume reduction, as opposed to where the vast majority of the rest of the £75 million is cost increases, which we talked about. Clearly, without going into the specifics, clearly engineering services is a significant loss maker and, given the write-down that we've done there during the year, we've still got, as Nick said, 16 of the delivery units in the regional business are making money, but there are three that are loss making. So I think, in terms of the flavour, I think if we want more detailed conversation, we have to take it offline. But those are the...In terms of covenants, just I guess one point. Yes, in terms of from a covenant perspective, just remember that discontinued business is still included, so PB's profitability is still in there and clearly, while we own it and clearly with depreciation, etc, so yes, we're fine on covenants.

Steve Marshall: Yeah, and on the CEO appointment, I won't get drawn on too much detail because that's for the announcement when we make it. But we certainly anticipate making an announcement certainly within weeks, not months, and would be hopeful of doing that in fairly short order and as we've said on other occasions in response to questions, we're looking for breadth in an incoming group CEO, some obviously sort of seasoned, prior track record of managing public companies as a CEO and turnaround skills and all of those things are important alongside, and ability to very rapidly empathise with the sort of businesses we have under our umbrella. But I won't go further than that. That will be for when we make an announcement.

Gregor Kuglitsch: Thank you very much.

Operator: Thank you. Our next question comes from Marcin Wojtal from Bank of America. Please go ahead.

Marcin Wojtal: Good morning. I just have one question. Have you considered implementing further restructuring UK Construction and scaling down the business? Could you, for example, close down some of the units that focused on specific type of projects or projects in some regions? Because the thing is, there must be some units or subsidiaries who are achieving acceptable margins. It's more challenging than for others. So could they be, let's say, shut down?

Nick Pollard: Thank you for the question. The short answer is, that's what we are currently in the throes of doing. When we talked in July, we announced our intention to effectively withdraw from the housing sector in the southwest. We were closing our Exeter office and scaling down our operations there, focusing on only a few key clients, in particular work types where we know we've got good strengths. Similarly with Engineering Services, we've pulled out of the London market trading for Tier 1 contractors. We've also not been bidding any work in the southwest with Engineering Services, so the strategy in that business overlapped completely and ties in with the strategy for the regional construction business. By and large, across the country, we have been focussed much more on winning repeat business with selected customers and making sure that we don't take works that are of an inappropriate scale or nature for our business. I hope that helps.

Operator: As a reminder, to ask a question, please press *1. We will take our next question from Stephen Rawlinson from Whitman Howard. Please go ahead.

Stephen Rawlinson: Morning, chaps. Just two things: firstly, on the KPMG review, it looks to me as though, in the way it's written, much of it is backward looking and looking at existing contracts. Can you tell me what they may or may not be doing with regard to contracts that you are currently establishing? I mean, if the UK revenue is going to be capped at somewhere near the current levels, as you've implied, then it would seem to me that the contracts that are currently being set up would need some sort of overseeing by somebody from outside just to make sure that you feel comfortable with them. It's written, as I say, very much as backward looking.

Secondly, the sequence of events for the appointment of the new CEO, I'm not sure I heard correctly before, Steve, but I thought you might have mentioned that a new Chairman had been appointed. But you don't see a danger here of a new Chief Executive being appointed to a strategy that's already been established and that Chief Executive being appointed by a Chairman who's outgoing? So can you just give us some understanding as to what the new Chairman might be able to do and whether he's actually got some influence on the appointment of the new Chief Exec, which is quite clearly crucial to further progress?

Steve Marshall: Right. Let me try and unscramble the second question and then we'll come back to the KPMG terms, exactly. Inevitably there are chickens and eggs here. Someone has to come in first, either the Chief Executive or the Chairman, in any situation. You've just to recognise the reality of the way Board teams work, knit together and build. We are in the situation we are in, so the arrival of an incoming Chief Executive will be the next Board change. The Board has a very clear agenda for what we are doing during this interim period through to the end of the year, and the other side and we've talked about that many times in recent months. That is clear. An incoming Chief Executive, of course, will want the time to get their arms around the business, assess what they find and will then have their own thoughts on strategy in discussion with the Board. That's the way it is. As I indicated in my comments up front, once we are clear on the timing of the arrival of the new Chief Executive, obviously executive responsibilities get handed over to that person straightaway. The Board will conduct a search or appoint a non-executive Chairman, at which point I will step down. Clearly an incoming Chief Executive would have been identified and appointed by that stage, and therefore will have their input, and it will be possible to build a team of Chairman and Chief Executive who will complement each other and work together. So it's entirely doable. The important thing is to move things on as rapidly as possible because the company is going to be through this difficult period and looking to make progress as we get into 2015.

Duncan Magrath: On the KPMG question, very specifically, they will look at contracts we have been awarded but not yet started.

Stephen Rawlinson: And also change processes for the future, or have an input into changing processes for the future?

Steve Marshall: They will be making clear recommendations based in what they find, and if there are areas that, in discussion with the Board, it looks like adding or refocusing work, then they will be taken account of as the work is underway.

Stephen Rawlinson: Just one further one, actually. Does this profit warning in any way affect the PPP/PFI valuation you came out with quite recently? Or are these projects separate from the PPP portfolio?

Steve Marshall: No impact at all. I'd just remind you that we've made the point that even against the revised PPP director's valuation, we are seeing some scope for upside on disposals against that valuation.

Stephen Rawlinson: Thanks, chaps.

Steve Marshall: Thank you.

Operator: We'll take our next question from Alastair Stewart from Westhouse. Please go ahead.

Alastair Stewart: Morning, gentlemen. Two broad questions, really. First of all, what…previously the USP for Balfour Beatty had been the amount of partnering-type work, framework-type work, repeat work you'd done and how little hard bid you'd got involved in. These all seem to be hard bid-type contracts. Can you just remind us very roughly what percentage of your UK construction revenues currently are in those broad two-stage pain share gain share partnering-type relationships and what really fits more into the hard bid? That's on the contracts you've got currently ongoing. The second, follow-on question is, just how seriously are you looking at your current bidding pipeline? Because without beating about the bush, a number of the smaller, mid-sized companies are talking about the "big" companies coming into their space and bidding really quite aggressively. I've heard names; I've heard numbers involved. These aren't generally companies with a track record of dumping on the opposition. They're fairly trustworthy companies. Can you give very rough answers to those two questions?

Nick Pollard: Yeah, sure, Alastair. Nick here. So I was talking about partnering. I haven't got a number that I could quote to you this morning around what percentage of our work is partnered. What I would say is, a lot of our major infrastructure projects are partnered works. Even today's announcement of the win on Sellafield for £300 million-odd contract—that is the contract that's in the three-way JV with Jacobs and Amec. If you look at our road schemes, a lot of those are partnered either with consulting engineering practices the length and breadth of the land or with other Tier 1 contractors. That's as true in our regional business for a lot of schemes as it is in major projects, too. So those two businesses really promote, encourage and you're right, in looking at our bidding pipeline, we are particularly attracted to bid where we can work collaboratively with others in industry but also particularly with customers. Where we can work with a customer, eradicate risk for all of the parties concerned and have a very open, honest and transparent execution of work - that's the kind of high quality work that we're pursuing generally, and is undoubtedly where our strengths lie. Just kind of with that, clearly two-stage bidding can offer exactly that kind of opportunity too. So we have moved a long way to encourage and ensure that in approaching contracts, those kind of criteria are right up there at the front of what we select to bid and to whom we select to bid. Customer behaviours are just as important in this as our own. Then, going to your point about the food chain and moving down in the food chain, that's exactly what we are currently determined to stop doing and have stopped doing, to a large degree. Unfortunately, during the recession, I think a lot of major contractors took on works that were of a much smaller nature and of a far more aggressive, single-bid nature. It is the nature of a demand and supply market. You know when things are tough for contractors, customers always try to secure the highest risk transfer they can against the lowest possible input price. We're (Balfour Beatty) are moving rapidly away from those waters, and that's exactly the kind of changes we're making in the regional business and also, if I could just add one other point in there, in terms of the transparency of that, and it plays also towards Marcin's question earlier on, from Bank of America. I should have mentioned and forgot to, or failed to, that in these last couple of weeks, we've also removed a complete management layer in the regional structure so that we get a much better visibility control and immediacy of action towards bidding and execution of works on site.

Alastair Stewart: Thank you.

Nick Pollard: I hope that helps.

Operator: Thank you. Our final question this morning comes from Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack: Good morning, gents. I've got three, so apologies in advance for that. Firstly, I wonder if it's possible to give me either in very broad, nominal terms or even in percentage of revenue terms, how much you've currently got in claims outstanding or non-agreed works which you've either completed or yet to be completed? Secondly, and I do apologise for this as it goes back to the question that's been asked twice already, but in relation to the buy-back, I think my understanding from previously was that when the original announcement was made, there was tacit approval given by the banks for you to commit to a level of buy-back up to £200 million. In view of what's happened today, do you need to go back to the banks and re-clarify that position, or as far as you're aware, has this not had any impact on any "claim" they may have over the proceeds? And the last question is, and this is just probably my ignorance, but in view of some of the comments you've made around the £75 million i.e. cost overruns on some projects, I think specifically in relation to the major building works, you refer to change of spec, etc, which is yet to be agreed, revenue terms with clients, etc. In view of that, I'm slightly surprised that the debt position hasn't really changed from when you were sort of flagging it a couple of months ago. Again, I'm just after reassurance that the £500 million that you're sort of guiding again today is not composition of something which has gone £30, £40 million the wrong way but something which has come in that we don't know about the right way.

Duncan Magrath: Okay, Kevin. Perhaps I'll deal with them in reverse, deal with that one first. So the figure we put in the statement today was around £500 million net debt average for the year. I think as I said a bit earlier, we were expecting round about £500 million second half and, effectively, we had £424 million for the first half. So the average for the second half I have effectively increased by about £70-80 million, which is roughly the scale of the number we're talking about. So that is the broad headline move. So there is an increase, and that results in the average net debt for the year going up to just over £500 million. Is that all right, that one?

Kevin Cammack: Sorry, I thought you'd previously said that the second half would be around £500 million.

Duncan Magrath: Yeah, that's what I'm saying. The second half will be now around £580 million.

Kevin Cammack: Oh, okay, sorry. That's my misunderstanding. That's fine. Thank you.

Duncan Magrath: In terms of the buy-back, we got formal consent, because we needed it, in terms of a significant disposal of a business. I'm sure we're talking to lots of stakeholders over the next few days, anyway, but there is, as far as I am aware, no issue with that in terms of…and as you said, there was an assumption with them that we would be doing a £200 million return of capital, which is what we said today. Going back to your first point, in terms of percentage of revenue, I don't have a figure in my head, but it's a very small number.

Kevin Cammack: A very small number: sub-10?

Duncan Magrath: I mean I'm not sure if your question is, what's the total volume of claims we potentially have outstanding, maybe one or two percent, something like that.

Kevin Cammack: Of divisional revenue?

Duncan Magrath: Yeah, and very little of that, obviously, in a small number of cases, some of that may be taken into account in a forecast position, but almost none.

Kevin Cammack: Okay, thanks very much.

Operator: Okay, thank you. We have one final question from Howard Seymour from Numis. Please go ahead.

Howard Seymour: Thank you. Sorry, gents. Just a couple more from me if I can. Firstly, without wanting to go into intricacies because I don't understand it, but Duncan, just a question on tax, as to whether any of this does have implications for tax charge for this year and next year i.e. is there any allowables etc? Second question, just actually on investments, because when we have seen profit warnings from the company, you have indicated that there would be a more investment process, not necessarily investments this year, but also thoughts on next year where you previously suggested that the level of asset disposals would be quite a lot less than this year.

Duncan Magrath: On tax, basically this will, it's all UK and therefore we'll get a tax deduction at the UK corporate tax rate. The only issue I would flag up is, clearly at the moment we don't have a lot of UK profits against which to offset the tax, so we will have to look at the recoverability of the deferred tax asset at the end of the year, subject to that being okay. Then we can just effectively apply UK tax to the £75 million. There shouldn't be any flow-through next year. In terms of the investments, Steve do you want to…?

Steve Marshall: Yeah, I think nothing has changed in terms of our current forward plans and nothing has changed as a result of today's announcement that changes our running order on the future sale of investments.

Howard Seymour: Thank you. So you previously indicated probably about £45-50 million of disposables next year. Still happy with that, therefore?

Steve Marshall: Yeah, at this point. But obviously, we'll limber up for that as we get towards the end of the year and into next.

Howard Seymour: That's fine. Thank you.

Operator: There are no further questions in the queue.

Steve Marshall: Okay, well, we'll conclude at that point. Thank you, everybody, for your time and doubtless, we'll be speaking to a number of participants in this call one-on-one in due course. Thank you very much.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation. You may now disconnect.

END

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