David Phillips, Citi
Morning, can I ask about cash again and was there any particular group of contracts that led to the skew of cash outflow in the first half, or was it across the board?

. . . .

Duncan Magrath, Chief Financial Officer
No, I think it's probably worth spending a bit of time on that. If you go through the movements in working capital, as I said the movements in Support Services were reasonably small, about £35m, sort of year end to first half, £30m within Professional Services, which as we've said is moving towards that positive position, you're then left with about £220m of movement in Construction. And that's really a function of - we have a seasonal effect so there's a reduction in revenue.

So if you look at the payables line, the biggest movement is on payables, so there's about £160m movement on payables, 6% of that is volume related and about 3% is we're paying people three days, three payable days quicker than we were before. Debtor days are within the normal bounds, payable days, as I said, is slightly lower than it has been. But as I mentioned earlier, that's protecting the supply chain.

If you then look to the construction balances there's about £80m movement between the year end and the half year and that's really where you're seeing the change in mix of contracts, where the larger infrastructure, more complex projects, where we had favourable milestone payments are being replaced to an extent by the shorter contracts. So it's across the board.

. . . .

David Phillips, Citi
Sure, and I think in the presentation you quoted what the average cash was in the whole of the first half, could you quote what it was - say over the last three months, just to sort of show if this is the sort of troughing period?

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Duncan Magrath, Chief Financial Officer
Yes, so we quoted £100m for Q1 and it's 35 for the half year.

. . . .

David Phillips, Citi
And just a second one, there seemed to be one or two mentions on overruns in contract specifics, maybe a bit more than we've heard in the past. Is that the case, I mean is there more of a sort of bad run on some larger contracts that have drifted, or is it just that these are the larger ones within the mix because you're moving into smaller contracts?

. . . .

Ian Tyler, Chief Executive Officer
I think we need to bear in mind a couple of things about that. I mean first of all we - in any business like ours we will have movements around individual contracts, that's inevitable. These types of issues are obviously more pronounced the more conservative your accounting policy, the less conservative your accounting policy the more you will smooth out the impacts of all of these things. And in the course, if you look at our numbers in the course of this - the first half we've taken some write-downs on projects and we've got recoveries on things that we've done in the past, that's part of the normal cycle of things.

Generally speaking we'll tend to see them a little bit more visibly at the half year than in the full year, simply because of the short period of time and the smaller numbers. So we kind of have to highlight those because they are fairly clear in things like the Support Services business. To a large extent they are part of normal activity, we will tend to take issues that arise on contracts, we'll take a conservative approach to them and in general we'll see recovery of those issues over the next two, three, four, in some cases longer, years.

So I don't think there's anything unusual about it, we do have one or two specific issues that are clearly around this year and we've referred to some issues in the Support Services business and again we have to work those issues. We have one or two issues in the rail sector as well. They're not unusual, there's no particular trend in that, but they are visible within the numbers this time around and obviously we work to ensure that those issues - you know don't arise and certainly don't arise by the inadequacies of our operational performance, but there's absolutely nothing in our operation performance to suggest anything has changed in that over the last six months.

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David Phillips, Citi
Okay, thank you.

. . . .

Howard Seymour, Numis
A couple of questions if I may on margins on construction, you mentioned that you would expect that the US margin would probably flatten from here, just sort of - can you flesh that out a little bit on that and then if we can come to the UK after that, why you perceive that they will flatten from here?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, I mean I think basically obviously we've got visibility and we have very good visibility in the US in terms of the order book because we have a large amount of - what's called the awarded but not contracted and I referred to that earlier. So in terms of the US we can see that coming through and from what we can see margins are very much stabilised coming into the order book and that's been the position certainly for the last six or eight months.

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Howard Seymour, Numis
Great, thank you. And sort of related to that, on tender margins UK what do you expect that trend to be because you mentioned the cost savings that you're seeing, but are you seeing tender margins continuing to fall in the UK market?

. . . .

Duncan Magrath, Chief Financial Officer
I mean, what I was referring to was, again we've got visibility of what's coming in and we can see what's coming in compared with what we're currently finishing and that's the impact. So it will appear largely in our numbers in 2013 as opposed to 2012 where we see that difference coming in. I mean we've talked before; a lot of this is mix effect in terms of bigger contracts being replaced with smaller contracts rather than necessarily specific changes on the same types of contract as it were. But essentially the cost underpinning, we're talking about, should go a long way to mitigating that effect next year.

. . . .

Howard Seymour, Numis
Right, but do you perceive the tender margins, on a sort of like for like basis are continuing to fall?

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Duncan Magrath, Chief Financial Officer
I think they're broadly stable now, but the impact of where they are now will be felt …

. . . .

Ian Tyler, Chief Executive Officer
I think that's exactly the point, I don't think we're seeing and indeed haven't for some time, we're not seeing those margins falling away. The only impact we see in the numbers to take Duncan's point there, is the impact of the change that took place, it probably took place 12 months ago or more, now coming through in the revenue that we're executing, or the work that we're executing in the field.

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Howard Seymour, Numis
Thank you.

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Will Morgan, Goldman Sachs
I've got I think two questions, there are a few parts to some of them, I apologise. So the first one is on the novel topic of working capital, I just wondered if you can give us a sense, I mean it seems like the deterioration year on year is about £100m in terms of the outflow and is that something we can just carry forward through to the full year? And I just wondered, with that in mind, and I know this is very early to ask about it, but when you think about 2013 - you know how do you think about the working capital

there, because ultimately it doesn't seem obviously that the terms of trade are going to radically improve in the construction business given your exposure to some civil related end markets and obviously austerity, etc? And there's certainly precedent from companies in tough economic environments to see heavy deterioration in working capital trends.

So I just wonder how you think about that and especially given the way you think about protecting it on the asset side of the balance sheet, you include the investments in that but the liquidity of those is highly debatable one could argue, and therefore I just wondered if you could just give a general sort of comment on that, that would be helpful?

The second question relates to the construction business and within that it seems you have quite strong growth from your JVs and associates. I just wondered if we can get some sense of what the kind of cash pay-out of those businesses are? Does the kind of cash you receive correlate roughly to your share of the reported earnings, I just wondered if that's going to have any impact? And if we sort of look underlying it seems that the core 100% owned operations are seeing quite a bit of deterioration, I just wondered if that's lumpiness, or whether that's something that normalises out a bit? Thanks.

. . . .

Duncan Magrath, Chief Financial Officer
Should we do all those in reverse? I mean in terms of the associates they're - basically on the Construction side we have two significant associates, one effectively in the Middle East and the other in Hong Kong, they pay dividends to us each year and generally obviously the dividends and profit match over time. There isn't - they won't match exactly in each period, so there'll be leads and lags on that but there's no significant difference, clearly they're equity accounted for so the cash that sits within those businesses doesn't appear in our cash anyway.

In terms of your question on working capital, I think the reason for showing you those slide is very much there's a mix effect between the UK and the US. As I said I think where we are in the US, again, from what we can see going into the order book, it feels like we're at a position which is now stable. As said for the UK I do see the trend continuing, we are still finishing some of those contracts which had more favourable terms and therefore that's why I see some change.

I would emphasise in both markets it's not a significant change in trade, it's a mix of business that's driving it. The only thing around the edge as I said is we are very careful about the supply chain and as I said the only sort of real change other than volume and mix effect is paying people slightly quicker than we were.

. . . .

Ian Tyler, Chief Executive Officer
I think just picking up the point on JVs, it's just worth pointing out that our explicit policy with our joint venture partners and across the world is that we have essentially 100% dividend pay-out policy. So that does manifest itself in cash and we will then reinvest in

those businesses as necessary. But in the main the cash conversion on those businesses is close to 100% as you'd expect across the patch in a business like ours, but we do have a policy of paying out those dividends at the full level. So that's point number one.

Your point about the performance of the non-JV parts of our business, again it's an interesting distinction that's driven by accountancy rather than anything else. I mean we run our joint ventures in much the same way that we run our 100% owned businesses; there's isn't a distinction there. But if you actually mathematically take the distinction there is an issue this year that - and it comes back to exactly the point that David raised earlier, we have some - we have taken, as you'd expect us to, a prudent view in one or two areas, particularly in Support Services and in the Rail sector around some projects.

They happened all to being wholly owned line and actually we have some recoveries and they - and certainly one element of that happens to be in the JV and associates line. But that is - from our point of view that's more accountancy, the accounting process is the same and the process of operational management is the same in both places. So we just happen in this particularly case to have the downside in one and the upside elsewhere, but next time it may well be one - it almost certainly will be different to that.

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Joe Brent, Liberum Capital
Good morning, a couple of questions if I may. First on supply chain you've mentioned it several times and clearly a healthy supply chain is very important. How do you sort of match the need to keep them healthy with the risks around providing funding to companies that are often in difficulties?

. . . .

Duncan Magrath, Chief Financial Officer
I think providing funding would be the wrong phrase. I mean, I think what we're doing if paying them slightly quicker but we still owe them money.

. . . .

Joe Brent, Liberum Capital
Okay and on the deficit, the deficit is down and elsewhere we've seen deficits going up at the interims, could you just talk us through why that's the case?

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Duncan Magrath, Chief Financial Officer
Yeah, so our real discount rate 12 months ago was about 2.05%, I think it was - 1.9% at the year end and it's up to 2% now. So that real discount rate is a) historically very low and b) it's moving a bit. I mean, I guess ten basis points is effectively around £40m on our deficit. So the sensitivities are in the annual accounts, so if you wanted to move from 1.9% to 2% you'd add £40m to the deficit crudely. But ...

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Joe Brent, Liberum Capital
Do you think the real discount rate could come down for the full year?

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Duncan Magrath, Chief Financial Officer
I think I'd refer that question to my actuary, I'm not sure I'd be in a position. I mean - it sort of - it is whatever it is and it will move around and obviously the important thing with pensions is what we're paying in terms of cash payments.

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Joe Brent, Liberum Capital
Thank you.

. . . .

Mark Howson, Oriel Securities
First of two questions, can you just talk through the dynamic in the construction business of sort of revenue rising 7% and yet profits reducing by 21%. I mean within the statement it appears that you've reached some sort of settlement in the Middle East, presumably that's on Dubai Mall or whatever in there, can you just sort of square this circle of the operational gearing there?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, I think if you looked at effectively the movements in our operating - let's ignore the JVs for the time being on the construction side, if you looked in that movement there's essentially a movement half year on half year, as Ian said it's lumpy. There's about a £35m movement in profit between those two periods, roughly half of that has come from the margin reduction in the US that we've talked about and the other half had essentially come from the reduced volumes and the projects that we've talked about in the rail business.

. . . .

Mark Howson, Oriel Securities
Just secondly, I'll come back to the rail business later on, but just on PFI sales you mentioned £30m annual gains, presumably just to confirm I'm correct that that's - your PFI disposal programme, you've previously envisaged a three to five year programme of sort of 2 to 300m, that would sort of to the upper end of that range, £30m profit per annum is sort of towards the upper end of that range?

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Ian Tyler, Chief Executive Officer
Well the essential mathematics of that is slightly more complicated because there is no correlation between the - there's a sort of randomness about the correlation between the disposal gain, which is again a pure accounting issue and the revenue line. I think in practice that probably is fair and indeed I would make the point that I said in the presentation just now that the £30m is an indication of the sort of levels that we're sort

of looking at. But of course it will be a function of individual assets, the right assets that are appropriate for disposal at the right time each year. And I suspect that it will end up working out at around about that sort of figure. But yes that would probably put us towards the top end of that range, that's correct.

. . . .

Mark Howson, Oriel Securities
I was just wondering if I could just finish on rail then. Are you losing money in the Southern European rail markets and if so what's your intention to do about it?

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Ian Tyler, Chief Executive Officer
The Southern European rail markets have definitely taken a step backwards and that's true of Spain and that's certainly true of our business in Italy. Partly because of the - I mean a lot to do with the macroeconomic situation there, but also just in terms of the phasing of individual projects.

We have seen in that business a notable reduction in profitability. But at the moment those businesses are not - they're not embarrassing us, they're just - they're businesses, which we will need in time to rationalise and consolidate and ensure that they are - that we have a business in that part of the world that's appropriate for the much more limited market that will exist there going forward. And it will be a much more limited market in any foreseeable future, in any foreseeable time, so that much is inevitable. Does that answer the question?

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Mark Howson, Oriel Securities
Yeah, I just wondered whether there was sort of some exceptional costs as it were sort of downscale that within these numbers. I'm trying to work on this dynamic of the 21% profit fall versus a 7% rise; I'm just trying to think do you take things above the line there to scale these things down?

. . . .

Ian Tyler, Chief Executive Officer
At the moment we have - there's still in both of those - across that part of the market there's still work there that we're undertaking and in due course we will need to downsize those businesses. Exactly how we do it in that part of the world is something that we have to turn our attention to and I don't have a particularly answer to you on all of that.

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Gregor Kuglitsch, UBS
A few questions, the first one is just your comment on the Middle East, I think you mentioned a bad debt provision release, I was just wondering how significant that was and whether there's more to come on that side? The second one is maybe just more generic on the US, I think you flagged the two year extension on the Highway Bill, my understanding was there was potential to leverage PPPs within that sort of Map 21

legislation, I just wondered whether you think that has a realistic prospect of coming through sort of over the next two years or whether it's a just a theory at this point?

And then maybe - obviously we've talked a lot about working capital, maybe you can just give us for the three divisions in terms of what you see as normalised as a percentage of sales because it seems to be quite cyclical so maybe sort of what percentage of sales, because we can all take our own view in terms of ultimately what the sales come out to, so I'll leave it there?

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Ian Tyler, Chief Executive Officer
I'll let Duncan deal with Dubai and the working capital and then we'll end about the US transportation bill - that seems fair.

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, Professional Service as I said is heading towards 5% is our view of where it will settle. It will depend a bit again about the sorts of contracts that they get into but currently, the current business model would be around the 5%. You know if you get more into an EPC type environment there is potential to have milestone payments, etc, like you'd have in the Construction business. But absent of that around about a 5% type business.

Support Services, within there there is a very different mix of business, from facilities management, through to utilities, through to highways activity. And that will go - that has traditionally operated as I said - there's slides in the back, it's traditionally operated with a small negative working capital and I've not particular reason to see that changing. It will depend on business mix within there. Some of the outsourcing contracts if you have a lot of outsourcing contracts they tend to be fairly cash intensive at the start and that would drive up - reduce that negative working capital. So it will be around about, slightly negative or around about zero is my expectation depending on what's happening work winning wise, etc.

I think on the Construction side, as I indicated you've got the UK, the US and that accounts for more than 95% of all the working capital that sits in the Construction division. And as I said I think the US, I don't expect it to go much further, but in the UK we could see another dip before it comes back again. But I think if you've seen the curve, you know you've got to choose where you think you are in the cycle as to where you think you'll be on that curve.

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Gregor Kuglitsch, UBS
So somewhere in the middle between the two?

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Duncan Magrath, Chief Financial Officer
Sorry?

. . . .

Gregor Kuglitsch, UBS
Somewhere in the middle, sort of in the extremes ...

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Duncan Magrath, Chief Financial Officer
Yeah, I think to a certain extent as I said it will - you know you'll have your own view as to what you see is happening in the market and that will drive your view I think in terms of what's going to happen on that percentage.

In terms of Dubai, I mean there are - we have been conservative in terms of how we treat it. As we get more cash we will get - sorry we will get more provision releases, I hope we get more cash. I believe the market environment is improving there and there are receivables that we will go after. So there could be further upside from that going forwards, whether there'll be any in the second half, or whether they'll be next year I mean will solely depend on whether we get the cash.

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Gregor Kuglitsch, UBS
In terms of quantum, are we talking tens of millions or?

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Duncan Magrath, Chief Financial Officer
It's not huge, but it's 10 to 20m we have provided.

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Ian Tyler, Chief Executive Officer
Just to pick up one point there on working capital and this is sort of an instinctive comment, but I think we just need to be a little bit careful about distinguishing the structural from the cyclical in all of that. From my point of view the existence of a high level of negative working capital in the Construction sector is one of our biggest problems. In some ways it would be - we would have a much more rational industry if we had much lower levels of negative working capital. And to the extent that the moves that we're seeing now are structural I think they would potentially be very positive in terms of the way the whole dynamics of how our industry worked.

I think in practice, what we have at the moment we are in the midst of a cyclical change and I don't think there's anything that I see that says that there is a structural move within the business. And therefore in a sense you can kind of take the top of the cycle which we've seen and you're sort of seeing somewhere close now to the bottom of the cycle and to your point there, the midpoint of the cycle, by definition is somewhere between those two points.

If there is a structural - if this is really a structural change in working capital that we're seeing and I don't think it is I think it actually will be to the great benefit of businesses like ours. What of course we will need to do is to look at the way in which we fund our business and particularly our approach to those assets that we saw in the business and then consider very carefully the extent to which we need to hold cash against that negative working capital. But I don't think that's the world that we're in.

To your point there about the US Transportation Bill, I mean huge amounts of noise in Capital Hill, the result of which is as it always is, actually very little changes and the US transportation market is remarkably stable and in the end sort of indifferent to all of the maturations in government. What we have seen over recent years is a reduction in major projects because of the lack of long term funding and an increase in smaller projects, or indeed a breakdown of big project into smaller bits. That's been the natural impact of it.

The fact that we've now got a two, two and a half year bill is helpful but it doesn't change the world. What I said before was if we saw a reduction in federal funding of transportation the individual states would need to go somewhere else to fund their transportation and that may well be the opportunity that we're looking for to see PPP come through the market.

Now we are seeing increasing opportunities in PPP, but there is - it still is going to be, I think a relatively slow burn, and nothing I see in the federal funding package is going to change that. Andrew did you want to make a further comment? Andrew McNaughton, the Chief Operating Officer wants to say a few words.

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Andrew McNaughton, Chief Operating Officer
Yeah, I mean I think we mentioned earlier in the year that there is evidence of - more evidence now of PPP activity in the US than ever before. I mean from both our Professional Services side and from the Construction side. Earlier this year the Mid Town Tunnel closed which we are the lead designer on, and that's a key transportation project in Virginia, which is at a PPP basis. And equally we are working on a pipeline and some of those are looking to be bid later this month and early into September in Texas, where they are bringing forward the PPP opportunities. And that's a great opportunity for us, because as Ian talked earlier about looking at these as vertical markets it's bringing together the Professional Services capability and design and our Construction capability in one of our traditional markets in Texas.

So we are seeing, to your question about are we seeing evidence of this coming forward? We are. Is it across all of the States? No not yet, but there are early signs.

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Andy Brown, Panmure Gordon
Three quick questions I think, just in terms of the Support Service performance, the first half with those extra costs that you spoke about. I'm not quite sure I share your confidence that you can sort of turn it around by the scale in the second half. So could you just explain sort of why you think that's possible is the first question?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah essentially what I was saying was that we see the second half being - achieving the margins in the second half very similar to the margins we achieved in the second half last year. I mean there is a degree of skewing in the business and so with the second half performance it will be the same. There are the costs that we referred to in terms of the utility contracts; we said we will not recover in the current year, so we're not seeing them come back. So if you added those back to the first half performance then you've got a more natural balance.

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Andy Brown, Panmure Gordon
But if you add them back, again, I haven't done the maths, but revenue was up 10%, you've highlighted £10m, so that's what £20m, you know the margin would still be down wouldn't it?

. . . .

Duncan Magrath, Chief Financial Officer
The margin will be down for the full year, the margin in the second half would be in line with the margin for the second half of last year is what I said.

. . . .

Andy Brown, Panmure Gordon
Okay, oh right okay I understand now. The second thing just in terms - from an accounting point of view, if you keep achieving disposals in your PFI portfolio above directors' valuations is there any way to change the underlying basis on which you evaluate, or it is always the directors' valuation?

. . . .

Duncan Magrath, Chief Financial Officer
No I think - well it is the directors' valuation and it obviously doesn't sit in the balance sheet, so it's an additional disclosure but it's a valuation as opposed to a balance sheet treatment. I mean we are asked the question as to whether we should move the discount rate, I mean in terms of the half year we keep everything, we do a sort of roll forward of the valuation rather than redoing all the models and everything. And it is something I would consider at the full year. But I think we do provide the sensitivity analysis and the graphs that enable people to take their own view as to if they think it's overly conservative you can apply a different value to the portfolio.

I think we just need to be slightly - you know as I said we generally feel the valuation is conservative, you need to be slightly careful about the discount rates on mature assets that are sold now because they will be lower than the newer assets that are in the portfolio, bearing in mind it's a blended discount across new and mature assets and clearly our policy is disposing of the more mature ones. So with that caveat I still think the valuation is probably conservative.

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Andy Brown, Panmure Gordon
Brilliant thank you and the final one, just in terms of the immediate sort of outlook for further PFI disposals is there still an active market out there? Should we expect more in the second half?

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Ian Tyler, Chief Executive Officer
We have no immediate intentions to make any further disposals. There's one asset that - to some extent not driven by us could end up being disposed of which will be relatively small, but our plans at the moment would see assets probably from now - the next one probably being in H1 next year. And the market at the moment is - there is a lot of liquidity in the market as we've said just now, these assets are demonstrably attractive and of course we've seen that in the disposals we've made this year.

There is nothing I can see at the present time that will change that dynamic. I think somebody made the point just now about the question about the liquidity of those assets being questionable, at the moment they are very liquid assets, and again if you look at why that is there is no reason to believe that that's likely to change.

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Andy Brown, Panmure Gordon
Okay, thank you.

. . . .

Kevin Cammack, Cenkos
Two please, firstly given the tightening of the UK market, whether you take that in either timing or nominal margin, could you just again either reiterate or has your view changed on what retention of the phase two cost savings you will keep and what will be conceded, have you had any change in that view?

. . . .

Ian Tyler, Chief Executive Officer
That's a very good question and a very difficult question to answer. What I can say - and of course it depends over what time you look at that, I mean it is natural - in the short term those savings and particularly the savings that we have focused on there, the £50m are savings in overhead, they actually don't - they're not the things that directly affect the cost structure of an individual contract. So logically they drop directly to the bottom line.

Of course we are then beyond that in a world where competition is fierce and to be fair competition is fierce at all points in the cycle in our sector; the reality is that we will probably come out of this process as efficient as anybody in the market at the point at which we complete phase two.

Over time, obviously our competitors will catch up with us and as is always the case we will have to then reinvent ourselves and take those costs down further, that's in the normal course of events. So in the long term of course everything comes down to a sort of market level of margin and that takes into account all of the cost structures. However, in the next two to three years the efficiency that we're driving through our business I think will naturally rest on the bottom line of our business, rather than pass back into the market. And obviously the sooner we do that the sooner we'll deliver those savings.

. . . .

Kevin Cammack, Cenkos
The second one is just so I can understand it a bit more, if we look at these five verticals that essentially are the medium term growth strategy - are they identified because that's where you see the volume opportunity in the market over the next three to five years, or are they essentially the areas where you think your skill base is such that you can actually - you know deliver a higher pound for pound profit on those areas of business. And allied to that, are you - operationally are you changing anything in the business to fit those verticals, i.e. does there have to be like a global - well I suppose rail is already somewhat global anyway, but I mean if you take some of the other areas does the business have to become structured more in a global fashion and run globally?

. . . .

Ian Tyler, Chief Executive Officer
Again, that's a series of very good questions, the answers to which we have been working through very much in the last six, eight months. First of all inevitably it is a combination of both our capabilities and where opportunity is in the market. So if I take those together, obviously what we're not doing in the strategy is diversifying into something we know nothing about. So we're working with our existing capabilities. But if you look at the market and you look at the areas where - what we do enables us to tap into strong growth markets, they are in transportation, in power where we have existing strong capabilities.

But they are also in water and particularly, although the mining sector is going to be a pretty volatile sector for a number of years to come as we're seeing at the moment given where we're starting from there an area of potentially huge opportunity. Those markets are ones where we have, we have some core skills, but we don't have enough capability and that’s where we're going to have to go out and have to develop that capability, either internally or potentially through some form of acquisition to really - to play our part in those markets.

So actually it is - and it has to be a combination of both market and the skills that we bring in the first place. But particularly to your second point there, the reason why we can deliver value out of those - by taking this strategy is because they are increasingly markets where being an industry player that sits across what happens in that industry, not just a single capability business has value. I mean that demonstrably true in water, it's demonstrably true in the mining sector and of course it's demonstrably true in power.

It's arguably less true in transportation, particularly in highways for example, but even there we're seeing some big changes in our customer base who are looking for the combination of design programme management and construction and operations. And we can see that even with the Highways Agency in the UK.

So they naturally align down vertical market lines and to that point in mind we are going to have in time to make some fundamental structural changes to our business. And depending on which of those markets you look at, that will require us to be - to take a genuinely global view of some of those businesses, because our customers in those businesses and we could - for a start our customers are global in nature and the skills that we operate in are global. Rail is a good example of that and so to would the mining sector be. So yes we are going to have to change our structure, our processes and the way in which we look at the world quite differently over that two to five year period to achieve all of that.

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Olivia Peters, RBC
Just three quick questions, firstly on the five verticals that we've been discussing. I was wondering if you could give us a sense of, and a very general sense, nothing particularly specific, of how the margins vary between those five different verticals. So whether - I mean I'm imaging that highway is a lower margin than something like mining, but that's just my assumption.

Also, you were quite a lot more positive in the trading update on US commercial building. Now given that the architectural billing index is below 50, I was wondering if you still maintain that momentum is beginning to pick up there. And on the Highway Bill given that we've now got a two year bill are you seeing the size of projects pick up there? And also what is happening to lead times? Thanks.

. . . .

Ian Tyler, Chief Executive Officer
Right, the first there is about the difference in margin between sectors, I mean it's very difficult to be - to give a sort of very specific answer to that, but there are two factors that come into play there. Firstly is the degree of specialisation of the industry and as you quite rightly point out rail for example would carry higher margins than the highways sector, again probably is an example there.

The more technically complex the area generally speaking the higher margins you're expect to achieve. Probably much more importantly though is the point at which in those markets we're able to play and that point at which we interact with customers. And generally speaking that as we've seen across our business is a much bigger driver of margin. Where we're playing essentially as a single capability business we will tend to see lower margins, where we're playing at a more strategic role with our customers we'll see much higher margins. And the real question there is the extent to which those individual businesses allow us to play at that sort of higher level in the industry.

The mining sector is a good example - is very open to that strategic relationship. It's true probably is I take transportation in the US at the opposite end of the spectrum it's very structural, it's much more difficult to play at that very top level, because procurement processes can from time to time preclude it. And that will be the second driver. Again, on that particularly point Andrew do you want to make a comment?

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Andrew McNaughton, Chief Operating Officer
Yeah, I think I'd just like to pick up - I think to take that last piece about where we actually play in the market, I mean if you do that comparator, the general construction market in transportation, if you just take transportation and highways in the US, it's generally a traditional design, bid, build. So if we're in a construction element of that is there much different across the world in terms of margins there?

Referring back to the point I made earlier about the emergence of PPP and what we can see is when you actually transfer it and when the customer is transferring increased levels of risk to us and we're taking on those risks and back to Kevin's point about are we playing in those markets where we've got key skills, well absolutely, those verticals that we're focusing on give us the skills to take increased levels of transfer of risk from the customer, manage it effectively and therefore the level of return changes quite dramatically on that.

So it really is the concept in the vertical of where we actually play in the whole lifecycle of the asset, which makes the difference, rather than focusing this on a piece by piece basis.

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Ian Tyler, Chief Executive Officer
Your second question or maybe it was your third question about the size of projects in the US. A very interesting point, yes we are seeing in the infrastructure side, in the public sector infrastructure side, particularly around highways and to some extent rail, we're seeing a number of very large projects and indeed we're seeing if anything a mix of that particularly bit of the business skewing back towards larger projects. And quite why that it is I don't know, I think to some extent that's a function of procurement trends and one or two other things in the market. It isn't a sort of cyclical issue but certainly we are seeing that.

As to the commercial market in the US, as I said I think we said we were - we could see sort of no immediate prospect of recovery, but there were one or two green shoots when we were here in March. I actually think the situation is exactly the same now, we haven't seen those green shoots come into anything. If anything - well it hasn't gone backwards, but we've - slightly frustratingly the market still seems to be where it is. There are certainly areas of interest in the market and certainly areas where opportunities are greater than others. But we are still yet to see any material pick up in the market in the way that's going to impact our business and will therefore drive margins forward.

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Stephen Rawlinson, Whitman Howard
I'm trying to see if there's anything more I can read into slide ten which is the order book. At this stage last year you had £4.7bn of orders in for the second half of the year and ended up with £5.8m of revenue. Now you said some pretty certain things about margins in the second half of this year, but is there anything that we can take from the fact that the order book is £200m lighter?

Secondly, looking beyond that for next year you currently have orders of £4.5bn and obviously a very much reduced order book in construction. And I guess what I'm looking here for is size and mix. Is the change in mix in the order book there perhaps a function of your vertical strategy, or is it a function of delayed orders in construction? So is there something more you could tell me about the second half of this year and next year with regard to slide ten please?

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Duncan Magrath, Chief Financial Officer
Sure, if you look at the remaining six months for this year, as I said there is a slight change in the US between the awarded but not contracted which will come into the order book and the order book. So my view is the current year isn't significant.

Next year as I said it is a function of changing mix in business that that sort of reduction that gap we expect to be made up of more smaller type of contracts that have a shorter lead time to getting in there. So when we're comparing that period with the same period a year ago it will be less simply because we can get more smaller contracts into that period.

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Stephen Rawlinson, Whitman Howard
So just to follow on from that then, but with regard to the changing mix of business more towards the verticals as you've talked about, whether you keep on to over 60%, would it be the case then that we could expect a smaller order book in the future in relation to turnover or is it just going to be the same?

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Ian Tyler, Chief Executive Officer
There's a lot of different moving parts in that. I suspect in practice it will be for rather sort of slightly bleak reasons it will probably be a slightly lower level of cover because a larger part of our business will be driven out of the Professional Services side of the business which actually will tend to have, by and large, a lower level of cover, we'll see about 12 months visibility on the Professional Services part of our business and slightly more than that on Construction and Support Services.

That said, an element of that vertical market will also drive growth in the downstream Support Services activities where we would see higher levels of - order cover. But in the main I think at the margin it will probably reduce it fractionally, but again it's probably not a major issue in terms of visibility of work.

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Mark Howson, Oriel Securities
Two questions, on the tax rate, 25% in the first half and you're flagging 31% for the full year, presumably that's because you're expecting obviously the PFI disposals that you've done will be sort of largely tax free, and you're just flagging that effect for the full year is that correct?

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Duncan Magrath, Chief Financial Officer
Correct, it's just a mix effect, there's also - there is - underlying there's another mix effect which is that the profits don't appear in the same geographies in the first half and second half, so you have to apply your effective tax rate by country, so there's a slight change there as well, but essentially yeah.

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Mark Howson, Oriel Securities
Just secondly from me, on the write down of the investment in Exeter Airport, £12m is that all of the goodwill on Exeter and also can you remind us what other airport investments you've got and how they're performing and why you've done this in Exeter?

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Duncan Magrath, Chief Financial Officer
Sure, so that writes down our investment in Exeter to nil. In terms of other airports we have Blackpool; Blackpool obviously has the same issue in terms of looking forwards in terms of when passenger numbers will recover. But the difference with Blackpool is the valuation there can be more underpinned by things like the value of the land and property there, so there's a stronger underpin with Blackpool than there was with Exeter.

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Ian Tyler, Chief Executive Officer
I think it's worth pointing out on Exeter we've written it down to nil, it doesn't mean to say that it doesn't have any value, it just means to say that it is less clear that the visibility of that value is there. But I still then Exeter does have the capacity to be a very valuable asset. But at the present time we simply don't have the visibility of future revenue and particularly future passenger numbers to justify carrying it.

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Mark Howson, Oriel Securities
I haven't had a chance to look at the detail of the statement to show the profitability or otherwise on the airports, can you just talk us through that?

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Ian Tyler, Chief Executive Officer
Well operationally the airport is still profitable, but again obviously there's a finance burden on that, on the business. But if you look at where the passengers - and we've done a great deal in the airport to drive efficiency which puts us in good stead, but passenger numbers as they are and across the regional airport business are down quite materially.

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Andrew Gibb, Investec
Just a few from me, firstly just on bonding requirements, particularly I suppose around the US and just maybe you could talk a bit around that and how that sits I suppose relative to the balance sheet at the moment. And secondly, sorry to harp on about working capital, you've obviously talked about the change in mix around the US and UK but could you also talk about the change in mix between private and public sector, clearly that's probably had an impact on working capital, maybe give us a quantum in terms of that shift over the past 12 months?

And then just lastly a wider point around UK infrastructure and just particularly nuclear markets, where you see - you know new build versus decommissioning and maybe a bit around the future shape of PFI as well?

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Duncan Magrath, Chief Financial Officer
Okay I mean in terms of the bonding market question, is your question do we have enough capacity, or sorry what was the?

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Andrew Gibb, Investec
Well yeah, I mean obviously historically I assume the US is a little bit more strict in terms of bonding requirements, I mean just capacity, etc?

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Duncan Magrath, Chief Financial Officer
I mean given the way that market has gone we have effectively 40% of our lines unutilised I think in the US at the moment, so - and we have a lot of bonding capacity and certainly could cope with - we'd be delighted to cope with the large infrastructure projects that Ian's talking about and out there. So there are no issues in that and the capacity is the highest it's been.

Secondly in terms of mix, I don't have any precise figures, but you're right essentially in the UK and the US the two big shifts in terms of mix effects are principally in the UK around the larger projects and the PFI projects, anything that's effectively financed through some sort of project mechanism you tend to be able to have reasonably good payment profile in terms of milestone payments, etc. And the same is true of things like military housing in the US. As a proportion of our business they've declined and that's had the change in effect between the two. I couldn't quote a number in terms of that mix effect at the moment.

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Andrew Gibb, Investec
But generally I mean the split maybe UK between private/public?

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Duncan Magrath, Chief Financial Officer
Yeah I mean in terms, I would guess over the last 12 months we've probably moved 10 percentage points broadly across the Construction business of less public and more private.

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Ian Tyler, Chief Executive Officer
Again, you do have to draw a distinction there between public, private and regulated and they do come into different categories. To take your point about infrastructure generally and then taking nuclear new build, I mean again the nuclear new build programme in the UK is exactly in that position that I've talked about where it actually needs clarity of where the government stands on all of that. And without it we're not going to see how all that pans out, I still remain, although as I said we're unfortunately not going to be part of it, but I think it's reasonably clear in my mind that EDF will continue with Hinckley and that that will probably drive one strand of government policy.

But whether that then creates sort of other big investments in nuclear remains to be seen and I just don't think we can call that at the present time. One way or another we're going to invest in power generation, whether it's nuclear or whether it's anything else, it's going to happen. And as I say right at the moment it's all kind of backing up and we are going to see a wave of activity at some point when it's absolutely clear, first of all what the government wants, and when it's absolutely clear to the government that they just better get on with it otherwise the lights are going to go out and that we are going to get to that point.

I think the balance between nuclear decommissioning and nuclear new build, the only difference, the obvious difference there is that nuclear decommission has to happen and nuclear new build doesn't. But certainly there are opportunities and again we've been involved in elements of that for a very long time.

You also mentioned PPP and again a little bit of that - I remain absolutely certain with all the announcements that have been made that the government is going to come forward in the UK with a different - a slightly different PPP regime, but all the indications that I have and I can see no more of that than you can, I have no insight into that, but I think they are going to come forward with PPP. It's going to be slightly different at the margin dealing with some of the issues. Will that deal with the issues that it really needs to deal with I don't know. But I do think we're going to find that our - that our business in part, both through our capital business and through the downstream activities are going to benefit from that in due course, but it will take a little while to come through.

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Andrew Gibb, Investec
Great thanks.

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Ian Tyler, Chief Executive Officer
I think we may well be running out of time, but is there one last question?

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Marcin Wojtal, BofAML
Just one very quick question, again on working capital and apologies if that has been answered and I missed that. Could you perhaps quantify working capital inflow, or perhaps give us a range for working capital inflow that you expect in the second half so that we can figure out full year performance?

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Duncan Magrath, Chief Financial Officer
I haven't quantified it, as I said I think it is difficult to be precise. At the moment our expected inflow we had roughly £300m outflow in the first half and I would expect some of that to come back in. But net-net for the year as a whole I expect there to be an outflow and that outflow I suspect will be somewhere around about 200, so they'll be about 100 inflow in the second half. But that will vary depending on what's happening on our win take, what's happening in the cycles, etc.

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Ian Tyler, Chief Executive Officer
Right, I suggest we call it a day there. Obviously if there are any other questions you want to follow up on we're very happy to talk about it, okay thank you very much.

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