2013 half-year results presentation script
14 August 2013
Opening remarks
Andrew McNaughton, CEO

Title slide

Slide - Opening remarks

Good morning and welcome to our 2013 half-year results presentation.

Since I've taken over as the Chief Executive of Balfour Beatty, we have faced a number of specific headwinds in a short space of time, most notably in UK construction and Australia. I'm pleased to report today that in true project management style, we have taken action swiftly, and while it is early days, our actions are delivering results.

It is also good to see that while being pragmatic about our priorities, we have not lost sight of our longer term objectives. In the longer term, our goal remains to capitalise on the growth in global infrastructure investment from an international footprint of local businesses.

So, we have a lot to talk about today. Duncan and I will now review our performance in the first six months of the year. Duncan will focus on the financials, and I will review the developments first from an operational and then from a strategic perspective. This should leave around 45 minutes for questions from the floor and from the webcast.

Duncan...

2013 half-year results presentation script
14 August 2013
Financial review
Duncan Magrath, CEO

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Thank you Andrew, and good morning everyone.

Clearly we have had a difficult first half to 2013. So I'm going to provide some additional information this morning to help you understand those results, and illustrate why we expect the profits to be skewed to the second half.

There are also technical issues I need to address upfront to make sure you understand the basis on which the results are presented.

As you know we announced in March that we intended to exit from our mainland European Rail operations. We have made good progress since then, in Spain, Sweden and Germany. As such, all of these entities have been treated as discontinued. The disposal of the Italian business is less advanced and so it remains in continuing operations. As you will have seen, we have announced the disposal of our UK facilities management business, which for these results has also been treated as discontinued.

Just a reminder that once a business in accounting terms is "discontinued" its results are shown on one line in the income statement below PBT, and the assets and liabilities related to those businesses are shown separately in the balance sheet as Held for Sale.

In your pack in the Appendix I have included a couple of slides on the performance of the businesses treated as discontinued in the period, but I do not intend to cover them in the rest of this presentation which will focus on our continuing businesses.

Slide – Headline underlying numbers

Revenue reduced by 3% to £5.0bn for the period. At constant currency, the underlying decrease was 4%. Revenue grew in Professional and Support Services compared with last year's first half, and declined, as expected, in Construction Services.

Profit from operations reduced to £52m with a strong performance from the Investments business and a good performance from Support Services. Professional Services suffered from a severe market downturn in Australia, and Construction Services UK encountered a very difficult first half, in accordance with the £50m profit shortfall we announced in April.

Pre-tax profits in the period of £45m was down from £150m last year.

Underlying earnings per share was 6.3 pence. The underlying effective tax rate excluding JVs of 14% was lower than usual and is the result of the weighting of disposal gains in our profits in the first half.

We have held the interim dividend at 5.6 pence per share.

As expected, both average debt and net debt increased in the period at £298m and £189m respectively, largely as a result of the anticipated unwind of negative working capital.

We have kept the discount rates used for valuing our investments unaltered, despite continuing to sell assets for more than the Directors Valuation. Even with the investment disposals in the period, the Directors' valuation of our PPP portfolio remained broadly stable at £719m.

In challenging markets we were pleased to secure £5.0bn of orders in the first half from continuing operations resulting in an order book of £13.9bn. The order book was £0.4bn higher than the year-end, with the US Construction business the biggest contributor to the increase.

So let's now turn to the segmental analysis, starting with Professional Services.

Slide – Professional Services by geography

The left hand side shows the order book and the right hand side shows revenue.

Overall order book and revenue performance have increased over last year.

In the US we have seen good order book growth and revenue growth in the first half. This has been driven by a good performance in transportation somewhat offset by a weaker performance from power.

The UK has seen further reduction in order book and revenue, although the outlook now feels more stable.

In the Rest of the World, last year about half of the revenue came from our Australian business. This year it has seen a significant downturn in its market due to cancellation of capital programmes in the mining sector, and consequent impact on government and state finances, and now accounts for about a third. Outside of Australia the order book increased by 11% from a year ago and revenue by 21%, due to strong performance in the Middle East & Asia.

Turning to profits and margin performance.

Slide – Professional Services summary

Whilst we did not expect to achieve in 2013 the same level of margin performance as 2012 the margin performance of 3.0% was significantly impacted by the market issues in Australia.

As noted on the previous slide, we had a good performance in transportation in the US although offset by some delays in power projects coming to market. There was also the successful launch of the Shared Service centre in March. In Canada, whilst the building market has been relatively weak, we are seeing increasing opportunities in the transportation market. In the Middle East we have seen good starts to our recent contract wins across the region.

There was continuing strong performance in Greater China and Singapore.

On my next slide I will show you the significant impact the downturn in the Australian market has had on our overall Professional Services performance in both the first half, and is anticipated to have in the full year.

Slide – Professional Services – Australia

Let me take you through step by step. On the left hand side I have shown the profit of £42m we achieved in the first half last year in Professional Services. Year on year in Australia we have seen a net revenue decline of £36m. Net revenue excludes sub-contractor costs, and so in the absence of any action by ourselves this would have been the reduction in profitability. You can see that we managed to reduce our cost base by £15m in the first half, which is virtually all people cost, but that still resulted in a £21m profit shortfall. The net movements across the rest of the business effectively net to £5m improvement.

Underneath the table I have shown an estimated full year impact. Slightly unusually the full year revenue impact is less than double the first half impact as I have netted off the benefit of a significant mining project that currently is still scheduled to start up in the second half which helps reduce the impact. This of course does assume that there is no further deterioration in the Australian market. As a billable hours business, Professional Services is sensitive to market reductions particularly in markets where projects generally have been let on a shorter term basis with extensions.

So, in the absence of any further deterioration, we will be facing a £24m shortfall for the full year simply due to Australia. We anticipate this shortfall to be partly offset by the growth that we have seen in the Middle East starting to come through into earnings, but the majority of the shortfall is expected to be covered by the resolution of a long standing contract dispute. There are clearly potential risks over quantum and timing as it could slip into 2014, but we expect it to be resolved in November and will update you then.

Just touching on 2014 briefly for the moment, we think it unlikely that we will see a recovery in the Australian market in the near future and improvement in rates or margins will only occur when the overall market recovers.

Now moving on to Construction Services.

Slide – Construction Services by geography

Just a quick reminder before I start, that the Rest of World figures for order book include the discontinued operations for European Rail up to the end of 2011, but exclude them for 2012/13. They have been excluded from the revenue figures and the percentage growth calculations.

The overall order book increased 9% since the year end. This was due to strong growth in the US, up 15% where we saw the expected conversion of ABNC into unexecuted orders. The US order book is now 30% larger than the UK order book which was down 6% in the period. UK Regional order book was broadly stable, but we saw a 13% decrease in major projects particularly impacted by the delay in power projects coming to market. The Rest of the World order book has grown strongly on the back of good wins in Hong Kong.

Revenue was down 5% with a 16% fall in the UK as anticipated.

The US revenue was up 5% or 2% on a constant currency basis. After a modest fall in Q1, we started to see revenue growth accelerate in Q2 and we are confident of seeing revenue grow into H2 and 2014.

In Hong Kong we also saw revenue growth in H1 which we expect to accelerate in H2.

Turning now to profit performance.

Slide – Construction Services summary

You can see from this slide that performance for Construction Services was significantly down with profits of £59m turning to a loss of £(41)m this year.

In April we had to reduce our expectations for UK Construction by £50m for the year, due to poor operational performance and this exacerbated what was already going to be a very difficult year. I will deal with this shortfall and how it significantly skews this year's profits on the next slide.

In the US the first half saw a stable margin performance. We expect that it will take 12 – 18 months of increasing activity in the market before tender margins start to improve. Our margin percentage in the short term will be more influenced by mix of business and operational delivery than an improvement in the market.
We also saw steady performance in Dubai, but profits were down on last year due to the higher than normal profit last year from significant recoveries on old receivables and contracts. In Hong Kong there was also a stable performance although a little behind our expectations due to a delay in some projects. We anticipate recovering this by the full year.

So turning back to the profit skew in the UK.

Slide – Construction Services UK

I have created this slide with illustrative figures to explain the heavy profit skew to the second half. The figures are for our UK Construction business, exclude the UK Rail Projects business and are before allocated corporate overheads. I will take you through the slide from left to right.

There is a base level of margin that we would expect through a year, and I have shown this level in both halves.

Secondly, there is always a natural skew which exists in all our Construction businesses. I have shown this as a £10m drop in margin in the first half and a £10m uplift in the second half.

Thirdly, there is the impact of the £50m profit write-down we announced earlier this year which we said would impact roughly £45m in the first half, and £5m in the second half.

Finally, there is the overhead we run within the business, which is on a steady decline, and which will have reduced by £50m between 2011 and 2014.

This shows how, using these assumptions, a loss of £35m in the first half could turn into a profit of £32m in the second half, to give a breakeven result for the year as a whole. Clearly to achieve this breakeven result we need to ensure that (i) the base margin remains the same, and (ii) none of the issues we saw in the first half repeat in the second half.

On the first point we are not seeing any issues that would suggest that the base margin is changing. It will depend on the mix of business with the lowest bid margins in building construction, and the higher margins in power and transportation, but with increased focus and attention that are being applied, bidding margins at the moment seem stable.

On the second point, the vast majority of the contracts which led to the £50m profit reduction were either finished or substantially finished in the first half. However, we clearly need to ensure that we do not encounter similar issues on other contracts as they progress, and this is obviously attracting a high degree of management attention.

Turning now to Support Services

Slide – Support Services by market

On this slide, as for Construction Services, the figures for the Building order book include our discontinued business, ie FM, for 2011 and prior, but exclude them for 2012/13. The order book is up 11% since a year ago, with the most significant order being the National Grid contract. It did decline 8% since year end, but this is more a function of the lumpy nature of awards, rather than any underlying trend. Our order book, for instance, does not include our share of the Thames Water contract, potentially worth up to £500m to Balfour Beatty, and the £70m Yorkshire Water award which was received in July, both in anticipation of the new AMP6 cycle.

The Power sector's revenue was up strongly, following on from strong order intake last year. We have seen a fall in transport revenue as a result of the timing of contracts coming to an end, and new ones starting up, which will improve the position in the second half.

Turning to margin performance.

Slide – Support Services summary

Profit of £17m was up on the £4m profit from last year, which was impacted by one-off cost increases in Australasia.

Overall profit performance in power improved on last year, not only due to this, but also due to improved profitability in the UK. A somewhat disappointing performance in water was more than offset by a significantly improved performance in our local authority highways maintenance business.

Before moving onto the Investments segment, let's have a look at the phasing of our order book.

Slide – Order book position

The current order book is shown in bold, which totals £13.9bn which compares with £13.0bn at the same point last year, shown lighter.

There are two key points that I wish to draw out on this slide.

Firstly, in the 6 – 18 month category which represents contracted revenue for 2014 you can see that for Construction Services this totals £3.0bn, a rise of 11% from a year ago. This is driven by the increase in the US which is up 20% or 16% excluding exchange.

Secondly, the increase in the Support Services order book for 30 months plus which is around 30% and includes the National Grid contract, but as I mentioned earlier does not include the Thames Water or Yorkshire water contracts.

Slide – Infrastructure Investments financials

Infrastructure Investments profits were broadly in line with last year. Before disposal gains, they increased from £15m in 2012 to £18m this year. This was principally due to reduced bid costs. The annual profit lost from 2013 disposals is approximately £5m.

This year the disposals in the first half generated disposal gains of £45m which exceeded the gains of £40m we had targeted but were £7m down on the first half last year. Again the disposal proceeds we achieved exceeded our expectations since they were achieved selling fewer assets than we had planned.

Overall, therefore, including sub debt interest income of £13m, and PPP subsidiary net interest of £2m, we delivered another very strong pre-tax result from investments of £78m.

Slide – Infrastructure Investments highlights

I will not go through this slide in detail, but emphasise that we have had a very active and successful 2013 so far in Investments. We achieved six financial closes, two new preferred bidder positions, and a successful first close of the Infrastructure Fund.

Slide – PPP portfolio valuation movements

We have left the pre-shareholder tax discount rates used to value the portfolio unchanged at 9.5% for the UK, and 12.0% for the US. The rate covers a range of maturity of assets, but we believe continues to be a conservative discount rate – as evidenced by our gains against the Directors' valuation from our disposals in the first half. The £30m gain against Directors' value is included in the £44m shown at the bottom of the table.

The most significant item in the reconciliation is the disposals and distributions of £109m. Offsetting this is the investment of £12m of cash and £36m from the unwinding of the discount, leaving the valuation at a healthy £719m, down only £15m from the start of the year.

Slide – Group profit skew

The market issues in Australia and the operational issues in Construction Services UK will make our profit performance much more skewed to the second half than in previous years. This slide is to give you a feel for these factors, and in particular giving a comparison with the second half performance last year.

In Professional Services, as I have shown earlier, we will see some additional weaknesses in Australia in the second half however, we expect that this will be more than offset by improved performance elsewhere, but principally due to the successful settlement of a long standing contract dispute.

Construction Services is dominated by the impact of Construction UK, where we expect a significantly better second half performance than the first half as a result of improved operational delivery, and this along with an improved performance from UK Rail should bring second half performance broadly in line with last year.

After a good first half, Support Services should trade slightly ahead of the second half last year, due to good underlying growth, and cost savings.

Despite the disposals in the first half, Infrastructure Investments should trade somewhat ahead of last year's second half with upsides from financial closes on a number of projects and an additional close on the infrastructure fund.

Finally I would anticipate unallocated corporate costs to remain broadly at the same level as last year.

So in summary, on the basis of the assumptions which I have just outlined, this should result in us delivering a performance in continuing businesses in line with current market expectations for 2013.

Slide – Net finance cost

We had a net finance cost of £7m for the year, compared with £6m last year.

2012 figures have been restated as a result of the revised pensions standard, IAS19. The first half includes just under four months of USPP interest. As regards the full year, a good estimate would be just over double the first half expense.

Slide – Non-underlying items

As noted earlier we have had to make some significant cost reductions in Australia to offset the downturn in the market. The cost of these changes in the first half was £5m, and we anticipate a further £8m of costs in the second half.

The restructuring programmes we launched last year, particularly in the UK and also with the creation of the Shared Service centre in the US, incurred costs of £27m in the first half.

As previously announced we are in the process of closing our Defined Benefit scheme to future service accrual. Whilst this will save approximately £200m in future cash contributions, it will have an accounting hit in the second half of £50m. We have completed the consultation process and future service accrual will cease from the end of this month. Whilst it is unfortunate that we have had to do this, the process has generally worked well, with a good level of co-operation from employees and unions. In a similar vein we have also had good, active dialogue during the process of moving our UK IT back office capability into a combination of a service desk in our Shared Service centre and an outsourcing deal with Fujitsu.

Slide – Managing the balance sheet

Over the last few years we have faced a declining negative working capital position as a result of the changing mix in the business and reductions in volumes in our Construction businesses.

This has led to a consequent reduction in net cash.

Despite announcing in 2010 that we would more actively churn the investment portfolio, the value of that portfolio has remained broadly constant, providing good strength to the balance sheet

which is shown in the net aggregate position of these three components.

One additional action we have taken is to anticipate the reduction in the cash position to put in place increased facilities, and this year the US Private Placement.

Prudent management has enabled us to maintain a strong balance sheet and liquidity throughout an extended downturn for a significant part of our business.

Slide – Working capital - Group

As noted on the previous slide we have seen significant movement in working capital over the last few years, and this shows the picture from a Group perspective. I have included slides per division in the appendix. The trends are very much as I have previously said, with the most significant element being the Construction Division. So what do I see happening in the second half of 2013 and how will this impact the net debt position?

Slide – Net debt movement

I gave guidance at the start of the year that we anticipated a working capital outflow of £200m. I still see that guidance as being appropriate. In the second half I expect a further working capital outflow in Construction UK, and Support Services, but offset by an improvement in Construction US as revenue picks up. Looking further forward I expect working capital flows to be at least broadly neutral before seeing a net inflow as the UK Construction market starts to recover.

Picking up some of the more significant items as we go down the page:

We had £37m of pension deficit payments in the first half. We are going through our triennial evaluation, but would currently expect second half payment to be broadly in line with the first half.

The second half has both last year's final and this year's interim ordinary dividend payments along with a preference dividend payment.

We benefited from £81m of PPP disposal proceeds in the first half, but I am assuming for these purposes none in the second half.

The total £224m cash outflow in the first half resulted in an ending net debt position of £189m.

Based on these assumptions, I would anticipate net debt of about £350m at the end of the year, before including any proceeds from the facilities management and rail disposals we are looking to complete.

Turning to balance sheet headroom.

Slide – Balance sheet and headroom

This slide shows the positions at the current half year, and last year end.

The top row shows the period end net debt of £189m, and then shows how this translates to borrowings under our main committed facilities of £490m, giving a headroom of £460m. The slide also shows that we have plenty of covenant headroom and that is before the benefit of the proceeds from the FM disposal.

Slide – Summary of first half 2013

So let me summarise our performance in the first half of 2013.

The order book has grown from £13.5bn to £13.9bn.

We have seen a significant reduction in Professional Services profitability as a result of a quick and severe market downturn in Australia. We have taken quick action to reduce costs, but this will remain a challenging environment for some time.

We had a poor performance in UK construction and we have made decisive changes to address this.

Support Services has had a good first half and our Investments is a continuing source of value.

We have a strong balance sheet, and comfortable headroom.

Whilst we have seen a reduction in profitability we have maintained our interim dividend.

So at this point I'm going to hand you over to Andrew.

2013 half-year results presentation script
14 August 2013
Operational review
Andrew McNaughton, CEO

Title Slide

Thank you Duncan.

Slide - Agenda

In this part of our presentation I'd like to spend some time on operational and strategic developments. Given the significance of the performance issues in some areas this year, we have naturally shifted our focus to strengthening the underlying business. But, that doesn't mean that our strategic plans have been put on the back burner.

So, this morning I'd like to update you on the actions taken in the period to strengthen the businesses in the UK and Australia. We can then spend some time on the US business and the disposals we've announced, before turning to strategy and demonstrating that our continuing initiatives to grow our businesses in infrastructure and in attractive growth markets are indeed delivering results.

Slide - UK Construction business

The first area I'd like to tackle is the UK Construction business.

At the end of April, we informed you that we were facing a £50 million profit shortfall this year due to operational issues we identified in the UK Construction business. We also stated that the majority of these issues related to the Regional business, with some individual factors impacting the Building part of the Major Projects business. Difficult market conditions played a significant role, but it's clear that the disruption caused by our restructuring programme - which is reducing the overhead in this business by £50 million - also played a part.

As a result, I gave my personal commitment to address the issues concerned and initiated an urgent plan of action that addressed two key areas: bolstering our bench strength at all levels and improving our focus on key infrastructure customers.

Slide - Improving strength of UK construction business

So, in terms of improving the strength of the business, at the end of April, I made changes to the management of the business and commenced a comprehensive piece of work to evaluate the Regional business in its entirety. In addition, I made it a priority for management to return to delivering consistently high standards in disciplines such as planning, cost estimating and commercial governance going forward.

In June, we followed through on our decision to close some regional delivery units with weak prospects. Let me remind you - the purpose of a regional structure is to be able to address the changing needs of regional markets. Over time, we have flexed the shape of this business, and will continue to do so, to support local management teams to deliver profitability through the cycle.

Also in June, we appointed Nick Pollard as the CEO of the UK Construction business. His depth of experience in the field of operational excellence in construction makes him highly qualified to pick up the action plan that's been set in motion and to drive it forward.

The second area for attention has been customer focus. Through the work we've done, it's clear that particularly in the Major Projects business, we have placed greater emphasis on delivering the capability of the Group and been less sensitive to the needs of customers that have changed with market conditions. Now, of course, the breadth of our capability is a key strength of our business and this is recognised by our customers, but particularly in tough market conditions, we need to be more closely attuned to – and adapt to – the distinct needs and strategies of asset owners. This again is a core skill that Nick possesses and he's already made changes within the UK management team to align our organisation more closely with customers at the business level, as well as for specific projects.

I'm pleased to report today that these actions are delivering the intended results. The regional operating units that were strong, remain so, and are moving forward. Those that were less strong, are improving as the measures I've spoken about are implemented.

In the Major Projects business, the outcome of the actions around customer focus will naturally be less immediate. However, we have deliverable targets that will secure our position for 2013 as Duncan has stated.

Before we move on, it's important to acknowledge that delivering good performance in the second half in the UK will require hard work from the whole team. But with new leadership in place and barring unforeseen circumstances, they are equipped and motivated to achieve their targets.

More generally and looking beyond 2013, Nick is committed to positioning the Group alongside key asset owners to deliver to them the value they should expect from a market leader.

Slide – Taking swift action in Australia

The second area I'd like to spend a bit of time on is Australia. Duncan has already given you the detail of the financial impact in 2013, so I will focus on the actions going forward.

Let me remind you of four factors to start with. Firstly, the Australian business's exposure to the resources sector is over 35% by revenue when you take into account direct exposure and mining-related projects in sectors such as rail, power and other utilities. Secondly, the deterioration in the marketplace occurred very quickly, in a matter of months. Thirdly, the decline in the resources sector has a direct impact on our other big customer in Australia - the public sector. And finally, our overhead comprises labour and property costs, so these are the only two cost levers we can pull.

I am pleased to report that management has moved very quickly to ensure the sustainable future of the business, while retaining its core competencies. Unfortunately this has involved significant workforce reductions. We have also taken steps to start some projects where we expect to win subsequent phases of work using flexible employment options. The team is also working on a number of solutions, such as sharing space with partners and subletting, although this is a slower process due to the long leases involved.

While we continue with these initiatives to reduce cost, we are also pushing ahead with the implementation of our country model, which involves managing all of Balfour Beatty's capabilities under one organisational structure. There is no doubt in our minds that this model makes us more efficient, and more effective in understanding customers' needs, particularly in these more challenging market conditions.

We are also continuing to take advantage of developments in outsourcing, and the anticipated drive to reduce cost in public services. So, our plans to build highways management and water renewals businesses in Australia remain priorities.

The UK and Australia are clearly going through a difficult stage in their cycles, and it is difficult in both cases to time the recovery. However, it is our conviction that by taking the right measures now, we can come out of these downturns with stronger businesses. In fact, the US business which I'd like to look at now, makes a powerful example.

Slide – Actions taken in the USA underpinning our progress

Having gone into the downturn about 18 months before the UK, the US market is naturally at a different stage of its cycle. In terms of the underlying markets, Federal spending is still very constrained, and state and local governments are only slowly breaking free of the paralysis caused by their weaker financial positions. But, the private market is coming back and we expect this trend to continue.

Of course, we can't control the state of the markets, but we can prepare our businesses to come out of the cycle in better shape. In the last few years in the US, we focused our management teams on three things. One was making the right geographical choices for the right strategic reasons. The second was reorganising our acquired businesses and making the right efficiency improvements and the third was to invest in innovation.

So, for example, in 2011 we bought HSW in the North West in order to leverage our skill base and HSW's customer relationships with the big corporates in the region. Two years on, HSW's average project size has almost doubled. In fact, two recent awards for clients in the IT sector are worth US$700 million together.

Then in Houston, we bought SpawMaxwell to support our move into tall complex buildings. Houston is now an excellent market for buildings, and we are visible all around the city. Awards won by HSW and those won in Houston have made a significant contribution to the growth in the US order book.

With regard to our second area of management focus, in the last couple of years, we reorganised the US business into three regions, removed cost and channelled this resource into innovation and capability. The primary objective of the reorganisation was to achieve greater leverage across divisions and cost reduction was a useful by-product.

Then, in terms of innovation, let me give you a couple of examples. Firstly, the Capability Centre was designed to take knowledge-sharing to the national level to ensure that best practices, learnings and capabilities are being leveraged as effectively and efficiently as possible across regions.

Secondly, 'Lean delivery' is one of the practices where we are continually evolving a toolkit that allows us to deliver projects efficiently in a lean manner as well as providing a custom project solution for an owner. We aren't just about delivering efficiently; we are about delivering the greatest value for clients, and this requires that we really become client advocates and understand their unique needs.

It's clear to me that these two initiatives differentiate us from the competition. The offering we now have for our clients, and our focus on taking waste and inefficiency out of project delivery, are very sophisticated. We have won US$500 million of work just on the back of these strategies in the last year. What's more, we are convinced that these practices will be the basis for true value creation in the industry over the next ten years.

So, we can confidently conclude that the actions taken in the US in the last few years are underpinning our progress at present. And as market recovery continues to gather pace, we would expect these actions to lead to an increased share in the US buildings market.

This should, in turn, lead to good revenue growth in the second half, and in 2014. As order books continue to fill in the next 12 to 18 months, we would expect margins to improve, putting us on track for good profit growth in 2015.

Slide – Divesting of Mainland European rail businesses

So, that concludes the work we have done in our core businesses. In the period, we've also advanced the process for the divestment of our Mainland European rail operations.

Since we announced our plans for the rail businesses, we have had good interest from several parties. I can now confirm that we are in advanced discussions to sell the Swedish business to a trade buyer. We will continue to work on finding new owners for the German, and then in time, the Italian businesses. It is our desire to bring that process to conclusion in 2013, although this may take a bit longer to complete as we have indicated in the past.

OK – that's all I wanted to say on the operational priorities of the Group. I hope you will see that we are very focused on operational delivery while we navigate our way through a period of fallow growth in some of our markets. We know what we have to do – and we've committed the resources to make our plans happen.

Slide – Growing our businesses in target sectors and geographies

At the beginning of this presentation, I said we had prioritised the strengthening of the underlying business. At the same time, we've made progress in growing our businesses in target markets.

Allow me to demonstrate this with numbers and then give you some good examples of the types of business that we have won in the period in our target sectors and geographies.

We have given you this metric in the past. It shows the share of our order book that is in our target sectors in economic infrastructure, i.e. transportation, power, water and mining. We have kept the old numbers the same, but adjusted the current share for stripping WorkPlace and Mainland European Rail out of the numbers. As you can see, the weighting of infrastructure now has increased to 67% of our order book.

Slide – Winning work in target sectors and geographies

Now let's turn to the examples.

Slide – Leveraging capabilities in Australia

In Australia, one of our target geographies, we've established joint ventures with local companies. The objective is to leverage our capability, which we transfer from the UK, and Parsons Brinckerhoff's local presence, to grow our business in target sectors where we believe we have differentiated asset knowledge.

We are seeing evidence that our strategy is working. We now have a place on a water networks framework contract for Australia's largest water utility provider, Sydney Water. Also in Australia, we won Springvale Road - a £76 million road and rail crossing which brings the capabilities of our Rail division and Parsons Brinckerhoff's design capability to bear.

Slide – Growing position in the Middle East

In the Middle East, we've grown our position as a leading professional services player. Having won contracts on roads, drainage, and rail programmes in Qatar last year, we have now been chosen as consultants to the Qatar Expressway. From no presence in this country in 2011, we have built a business 400-people strong, and we can see Balfour Beatty playing a key role in Qatar as it delivers its 2030 vision and seeks to develop the infrastructure that this vision requires.

Also in the Middle East, we recently won a contract for the Makkah Metro in the Kingdom of Saudi Arabia - another prestigious project where PB will oversee the project implementation of the Makkah Mass Transit Programmme. We believe there are numerous opportunities for us to continue to grow in Saudi Arabia.

Slide – Capitalising on strength in target sectors

Moving on to support services, the examples are also numerous. As you know water is a target sector for us, and we are a strong player in the UK. As the regulatory water cycle, i.e. the AMP5 nears completion in 2015, water companies are eager to manage the transition to the AMP6 cycle without the unnecessary disruption caused by changeover. Hence, some of our customers have started choosing their partners for the next cycle. In a three-way joint venture, we have won a contract worth a potential £1.5 billion with Thames Water and Yorkshire Water recently extended our contract through the AMP6 period. Along with the Sydney Water contract mentioned above, these make three water renewals contracts in just six months.

Highways maintenance is of course the bread and butter of our support services business. Winning new business in roads is a testament to the strength of our offering and strategy, and Herefordshire Council is a good addition to our portfolio in the period.

Slide – Benefitting from public infrastructure spend

I've given you examples of construction wins from the US already, but let me add one from Asia. Hong Kong has seen a lot of government infrastructure spending and our construction JV, Gammon, has certainly benefited from this, reaching a record order book level which Duncan pointed out. Recently, Gammon was awarded a contract to build the Southern Connection Viaduct Section of the Airport Link. At £720 million, this is the largest solo civil engineering contract ever won by Gammon.

Slide – Pursuing the Investments strategy

Continuing on the subject of strategic developments, our stated strategy in Investments remains in place. We see this business as a core part of the Group, and a significant income generator. We will push on with its diversification and growth strategy while we crystallise some of the value through the disposal of mature assets.

In the period, we made several announcements of wins in student accommodation on both sides of the Atlantic. This is a growing sector and one that our Investments business would expect to capitalise on. Similarly, we are growing our portfolio in energy with the preferred bidder position for another offshore transmission asset - Gwynt y Môr off the north coast of Wales. Combined with the Thanet and Greater Gabbard offshore transmission assets, Gwynt y Môr gives us a leading investor position in this new and growing market, with responsibility for OFTO transmission assets worth nearly £1 billion.

We’re also progressing the strategy to generate additional income from the business by exploiting some of our core capabilities such as the ability to develop assets. Here, Balfour Beatty Investments is working on several projects where it doesn’t contribute capital, but earns development fees from the project. Tarleton University in the US is a very good example.

The success that we have demonstrated in diversifying the investments business, achieving significant disposal gains, replenishing the asset portfolio and identifying a sustainable future pipeline underpins my firm conviction that this is not only a core part of our business, but will increasingly act as a differentiator for the group.

I am firm in my view that demand for infrastructure assets will remain strong for some time to come. Our ability to control the rate of churn of our asset portfolio offers us the flexibility to provide capital behind our future growth strategy in the long term.

Slide - Sale of UK facilities management business, WorkPlace

Before I conclude, I would like to turn to another positive development that takes us one step further in our infrastructure strategy as well as providing greater capacity to invest behind it. Last week, we agreed to sell Workplace, our UK facilities management business, to GDF Suez Energy Services. The implied enterprise value of the business on a debt and cash free basis is £190 million.

This is a great outcome. Not only have we achieved fair value for the business, we have secured a new home for its customers and employees within an organisation with a clear and progressive growth strategy in this sector.

Slide - Increased pace of initiatives to drive business forward

So, to wrap up, when I spoke to you in March, I was clear in my intent as I prepared to take over as Chief Executive. That intent was to increase the pace of our initiatives to drive the business forward and I'm pleased that since that time, we've made progress in this regard.

Firm action has been taken to address the issues that emerged in the UK Construction business, including the engagement of new leadership.

Demonstrable benefits have been delivered in the US Construction business from the previous organisational change. Our US order book has improved and revenue is forecast to increase through 2013 and 2014.

We have continued to deliver against our efficiency targets across the Group and particularly in the UK.

Having set out a plan to exit from our mainland European Rail businesses, we have completed on Spain, advanced our discussions in Sweden, and made good progress on a process in Germany.

In Australia, we are progressing with the country model and have had initial success in both the highways and water markets. We are now confident that we are positioned well in both of these sectors and expect to benefit from increasing outsourcing opportunities as constrained governments look for efficiency improvements in their asset base.

We have seen success in the Middle East, having set out to grow our Professional Services activities in both transportation and power.

We entered into a transaction to divest the facilities management business providing significant capital to support our future development.

We are delivering strongly on our plan for the Investments business, both outperforming with regard to gains on disposal of assets and gaining market share in new sectors.

Throughout the period, the strength of our balance sheet has been maintained, containing working capital and liquidity within anticipated parameters.

Slide - Remain focused on operational delivery in the second half

Over the next few months, some of our markets will continue to be challenging, but we will remain focused on operational delivery. So, the priorities for the second half will be to:

- Deliver further progress on our action plans in the UK and Australia;
- Maintain momentum on the growth of market share in the USA, capitalising on the opportunities and making further progress with our Investments business in the US student accommodation market;
- Progress the disposal of our German Rail business;
- Ensure the smooth transition of the customer base in WorkPlace; and
- Complete the establishment of our Australian country model with a clear plan for medium-term growth.

Slide - Our strategic vision

In my opening remarks this morning I noted that while we are taking decisive action on our immediate priorities, we have not lost sight of our strategic vision. In the longer term, our goal is to capitalise on the growth in global infrastructure investment from an international footprint of local businesses.

While this requires a commitment to invest in emerging markets, I intend to maintain a careful balance to ensure that we also maximise the benefit from market recovery in our mature markets.

The benefits from our global infrastructure focus, combined with the impending recovery in our mature markets, - especially the US - position us well for the future.

On that note, I will ask Duncan to join me on the podium to take your questions. Duncan…