And on that note, let me open the floor to questions.

QUESTIONS AND ANSWERS

Olivia Peters - *RBC - Analyst*

Good morning. It's Olivia Peters from RBC. Just a couple of questions. In terms of the legislation being enacted in the US for PPPs, are you actually seeing states increase their PPP tenders, or do they tend to enact the legislation and then just sit on it?

Secondly, can you just give us an idea of what's going on with the margins in the order book? Obviously you're saying that they're being squeezed, but if you could give us an idea of which areas are being affected more than others?

And also, you provided us with margin guidance out to 2015. Do you reiterate that guidance, given the state of the market today? Thank you.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Right. Let's start off with the US and PPPs. The position with the US PPP market differs markedly from state to state. There is a lot of talk about PPP in the US. There is actually far less action at the present time. There are some states, notably Virginia, Florida, indeed California and Texas, who have been very active and are continuing to push that forward. We've had a number of discussions with the political regimes in each of those states, and they are more and more -- looking to do more and more through that route. Elsewhere, there is a sort of [inaudible]

I think it's very much a question of getting the legislation in place and then waiting to see how both best practice and indeed political conditions develop. PPP is -- and again, there is no one model in that market, but I think we will see a gradual introduction of it across a number of states. But in many cases and out of those 29 states, I think there will need to be some trigger event to get them, if you like, to step over the threshold and actually start to embrace in their first step into that area.

So it is going to be a steady process. And indeed, if I take the issue around US transportation, I do genuinely believe that the impact of federal funding, albeit that it will be very limited, and indeed the states are going to find ways round that, I do think it has the advantage that it potentially is that trigger event in at least some of those 29 states.

On margins, I think the point that I would make there is the comments -- my comments on margins were predominantly around the Construction segment. And yes, quite as you'd expect, the impact of the sort of markets that we're in are -- we will, exactly as anticipated, expect to see margin pressure in those markets.

I would make the point that that is -- the characteristic of that is not mad pricing in the market. That's not what we're seeing, in the main. What we're seeing, essentially, is the lack of opportunity to create additional value in some of the major projects, which when there is a little more activity in the market we would traditionally see.

Now, distinguishing all of those features is a difficult thing to do, but with -- given that phenomenon, yes, we are seeing a slight reduction in the anticipated margin in our order book, and obviously that will play out. And equally, when we see recovery in the sector in the medium term, we'll see that come back again.

Anything more on that, Duncan?

Duncan Magrath - *Balfour Beatty plc - CFO*

The third point, I think, was the 2015. And I think all of the issues we said which would drive margin over that medium-term period still exist in terms of how we would see them move forwards. I think in the intervening period, as Ian said, particularly on the Construction side, it's going to be -- I think at the time we said it would go up and down over that path towards those end targets.

Howard Seymour - *Numis - Analyst*

Okay. Howard Seymour from Numis. A couple of questions for Duncan, please, if I may. Firstly, on the working cap outflow in the first half, you mentioned the three aspects of the working cap outflow. Is it possible to quantify those in the context of what the three are?

And secondly, obviously, is related to that. You would expect a seasonal inflow in the second half, but going out to next year, UK would expect obviously to see, potentially, advance payments coming down. Are you expecting more in the US? And the big net figure there for us, would you expect work cap outflows next year as well?

Duncan Magrath - *Balfour Beatty plc - CFO*

Okay. Actually, I'll deal with the second bit first. I think, in relation to looking forwards, I think we will see an inflow in the second half of this year. Last year, we saw GBP100m inflow in the second half. I would estimate at the moment you might halve that, so we might see a GBP50m inflow.

I think, if you looked forwards, I'm not sure whether it will be precisely over 2012 or over 2012/2013, but I think in terms of the mix of business that we're likely to see, I think you might see something around a 1% reduction in the working capital -- negative working capital over a 12/24 month period, depending on how the business progresses over that period.

I think if you then turn it back to your first question, which was what's happened in the first half, we will -- we always traditionally see an outflow in the first half and then an inflow in the second half. In terms of the one-off effects, or the increased effect in the year, it was principally the Construction business, particularly in the US, was 50% of the extra, as it were, and then the remaining 50% was split roughly between PB and Support Services, in terms of the extra element that was there in the first half this year.

Andy Brown - *Panmure Gordon - Analyst*

Morning. Andy Brown, Panmure Gordon. I've got two as well. First of all, just going back to Support Service margin, just picking up on that point, I appreciate if you've got a lot of mobilizations, the cost side of that. Historically, there's been more of a second-half weighting to the margin in that division, I think. Are you suggesting that that doesn't happen this year, or is it there's more mobilizations to come in the second half? That's the first question.

Duncan Magrath - *Balfour Beatty plc - CFO*

It obviously will depend on what contracts we win and start up, but at the moment I would expect the margin in the second half to be better than the first half, and so the margin for the full year not dissimilar to last year.

Andy Brown - *Panmure Gordon - Analyst*

Thank you for that. Second question, interested by your comments about Middle East, which is a market you've been a bit more skeptical on in the past. Is it -- what's particularly changed? Is it that the scale of the opportunity is bigger now? Is it the countries are the right sort of countries? And also, how would you expect to do it? Is this about acquisitions or organic?

Ian Tyler - *Balfour Beatty plc - Chief Executive*

That's a very good question. I think my point was slightly different to that. We are -- we have a sizeable business in the Middle East. Our sizeable business in the Middle East is -- and which has stood us in reasonably good stead in the past, is Dubai-based, and we have a long heritage in the Dubai market. Unfortunately, at the present time, that is not exactly the best place to be, for reasons that we all understand.

Now, what we're doing in that business is through that business, which is, as I say, a very strong local business, is to allow and indeed encourage that business to look at opportunities in areas where there is demonstrable growth. And that would include, classically, places at the moment like Qatar and Saudi, and then possibly one or two of the other markets there.

Now, those markets, as I said just now, are -- you tread into those markets quite cautiously. And indeed, if you look at the profitability in those markets historically, there's been -- the local players have made good money; those that have moved in from outside have in many cases struggled. We have no intention of struggling in those markets, so we will choose our ground very carefully.

But what we are doing, and indeed what we have been doing for some time, there's nothing immediate about it, this has been something we've been progressively moving towards over the past couple of years, is to take the business and to give it a wider perception, but to do so very cautiously because, as I say, those are not easy markets to operate in.

Andrew, do you want to just make a comment there?

Andrew McNaughton - *Balfour Beatty plc - COO*

I think -- just adding to that, I think the thing that's also changed, or changing, in that market is -- well, two factors. For us, Parsons Brinckerhoff have brought some increased skills that have broadened our ability in that market, both in power and also in the transportation field. But also, that whole region is waking up to some of the skills that we now can deploy. In principle, I would say that in the rail market, because both Qatar and Saudi Arabia are looking at major expansions in rail, which are to our benefit because we can deploy those skills.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Yes. I think, to Andrew's point exactly, we have a lot of the skills in place there. Your point about acquisition, no, we don't need to do this through acquisition. This is a question of deploying the resources we currently have.

David Phillips - *Citigroup - Analyst*

Good morning. David Phillips from Citi. Can I just ask about the investment income and the investments division particularly, which in terms of the Group P&L is looking to become a lot more significant and was indeed much more significant in the first half? From our point of view, forecasting that can be quite difficult. Can you give some guidance on not just the second half, but looking out into 2012 and beyond as well, if possible?

Duncan Magrath - *Balfour Beatty plc - CFO*

Yes. I think in -- obviously, as you say, it's more difficult to forecast with the disposal gains in there. We stick by what we said last November, which is on average --

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David Phillips - *Citigroup - Analyst*

I was thinking more ex the disposal gains.

Duncan Magrath - *Balfour Beatty plc - CFO*

Sorry.

David Phillips - *Citigroup - Analyst*

Ex the disposal gains. You've given very clear guidance on that, but the underlying income.

Duncan Magrath - *Balfour Beatty plc - CFO*

Sure. Yes, it's a reasonably stable business going forward. I think that probably, if you looked at each of the individual elements, in terms of the UK, it won't vary dramatically. The PFIs, obviously, the profitability will change through Construction into the maturity of the schemes, so you'll see an element of that coming through.

In the US, you can actually look at the Directors' valuation and you can see the fees which drives the income in the US PPP. So if you look at our Directors' valuation and look at the fee income line, that will give you a pretty good indicator of where the US is going. And obviously the next biggest lump is the disposals. So I would break it down into those three, if you wanted to look at it that way.

I think, in terms of the subordinated debt interest income, that will continue to climb as we are putting more money into the PFI schemes at the moment, particularly something like the M25, where just under GBP2m a month is going in, in cash.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Overall, it is pretty stable. The two variable elements there are the fee income in the US business, which does vary with transactions, and of course the level of bid costs, which will vary. But in the end, our approach to bidding in this market has been pretty consistent. So again, overall, I wouldn't expect to see significant movement, and over the long term certainly that should grow, offset only by the impact into P&L of the assets we're disposing.

David Phillips - *Citigroup - Analyst*

And the subordinated debt interest, which was up nicely in the first half, is it a similar rate of progress over the next six to 12 months?

Andrew McNaughton - *Balfour Beatty plc - COO*

From memory, it will be up a bit compared with the first half, yes.

David Phillips - *Citigroup - Analyst*

Thank you. And could you perhaps talk a bit more about the fund management business and the outlook for that, when we'd expect to get some sort of definitive news flow and the scale of that operation?

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Well, the timing of all our activities are absolutely in line with what we originally said. I am, once again, forced back onto what we said last time, which is for reasons that are probably better understood by you than by me, we actually can't say a lot about that whilst we're looking at the way forward for that business. We will hope to come back in the fullness of time and give you a better update.

David Phillips - *Citigroup - Analyst*

Thanks.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

I apologize about that.

Gregor Kuglitsch - *UBS - Analyst*

Hi. It's Gregor Kuglitsch from UBS. I've got a couple of questions, I think some of which have been touched upon but I just wanted to have a bit more clarification. First is really under Construction, your comments around the margin. I just wanted to get maybe a bit more of a feel around the quantum, in terms of what you're talking about, in terms of what you're now booking into the order book versus what you're taking through the P&L. What's the margin difference there?

The second question relates to Professional Services, which I think you flagged in November as being one of the areas where you're going to get, or where you expect to get, relatively significant margin gain over the next five years. Obviously, I know that there was some variation around the fees and so on in the first half. I just wanted to make sure, see what your view is, whether that's actually progressing or not.

And then, finally, I just wanted to get a sense of what you're thinking on the acquisition side, whether you are still on track to do more or whether you're stepping back a bit, or really just a bit of an update around that side.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Yes. Your first question is difficult to be precise on, for all sorts of reasons. But I don't think we are going to see, as I said, catastrophic declines in margin. What we will see is the rate of -- in terms of the basis points of margins, the rate of that margin decline. Of course there are -- I would make the point that there are offsetting features there, notably the drive down of costs which will particularly come through in that sector. But we're not essentially looking at those margins dropping to zero or anything like that, but by degree we will see them come down. It will be, I suspect, slightly more evident in the US than it will be in the UK, and indeed you've seen the first part of that coming through this year.

More to add to that?

Duncan Magrath - *Balfour Beatty plc - CFO*

No. I think the US business, the CM at risk business, is a very stable business. Traditionally, that market, if you went back three or four years ago, was a 1%/1.5% business. We've been up at 3% in the last couple of years and we're probably coming back down to a more normal market level, I think, over this year and next.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

I would make the point that we would continue to expect to drive higher margins in the markets generally, just because of the breadth of capability and indeed the depth of our business. But as Duncan said, what we will see is we will see that differential between market norms and our figures falling slightly, over the next year or so.

Duncan Magrath - *Balfour Beatty plc - CFO*

There was Professional Services.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Professional Services, I think -- no, I think our Professional Services business is very much in line with what we expected. I think if you look across the elements of the business, we will certainly see margins improve. They'll improve, A, because we will deal with some of the cost base in the business; that doesn't actually flow through into margin. Secondly, we will achieve that by looking at the mix of business, and particularly the exposure to more the delivery side of the market.

There are some ups and downs in that. Certainly, the UK market at the present time is -- I think as all players in the market have found, is probably slightly more difficult. The US market is very strong. And as I said just now, Australia is actually two different markets. It's a very strong and high-margin market in the resources side, actually slightly more difficult elsewhere, just where the market's going. But overall, I have no doubt that we will deliver the margin -- the long-term margin expectations, and the business overall is doing exactly what we expected it to do.

And the last point was acquisitions. Well, the point on acquisitions, again, I'm going to say what I said before. We have -- the mix of business that we've put in place is exactly the mix of business that we wanted to have. To the extent that we are looking at further acquisitions, it is to enhance particular aspects of our business. We will continue to invest. The acquisition of HSW in June is a good example of that. That's something that we've been looking at and talking about now for the best part of a couple of years, and we've seen that come through.

The focus of our investment is likely to be more in the Professional Services side than elsewhere. But again, there's no new news in that. But we're looking at bolt-on acquisitions to enhance particular areas rather than any wholesale change in the business. Does that cover the question?

Gregor Kuglitsch - *UBS - Analyst*

Yes.

Manu Rimpela - *Deutsche Bank - Analyst*

Manu Rimpela from Deutsche Bank. Two questions, if I may. Firstly, can you comment on the joint venture and associates, what should we expect for those items going forward, with these disposals obviously reducing some of the profits?

And then, secondly, in terms of your growth outlook for emerging markets, you mentioned India, which you've been already talking about, so any indications on when we could see some business there?

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Do you want to do the first?

Duncan Magrath - *Balfour Beatty plc - CFO*

In terms of the JVs and associates, I think I answered -- well, if I don't answer the question you asked then let me know. But I think, in terms of the disposals, obviously they will then take a degree of income out, because we've no longer got the asset. Very crudely, we talked about GBP20m of gains per annum and that would, rule of thumb, be about GBP3m of income that those assets probably would have generated if they'd stayed in the organization.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Emerging markets, once again, I'm not saying anything that I haven't said before. The move of Balfour Beatty into emerging markets has, by its very nature, to be a long-term not a short-term play. Two reasons for that. One is the nature of the markets in which we operate are long term. We don't -- without a significant acquisition, we are unlikely to be generating profitability in those markets instantly. And indeed, acquisition is almost certainly only one element of any market entry strategy.

Secondly, the markets that we're dealing with there are ones which, just like the discussion around the Middle East, we have to look at very cautiously. India is a prime example of that. There are a lot of bear traps in the Indian market and we are taking our time. We've bid our first work out in that part of the world, which I've discussed before. We've now put some senior management resource into develop the -- our thinking in the market, and particularly to look at where the most viable opportunities are, which I suspect in India, for example, are more private than public sector. And we will take that forward.

But what it won't do is to drive short-term earnings in the Group. That is something which will play out over a period of two or three years, at the earliest. And again, there's nothing that's different from what I've said before. Is that okay?

Kevin, was it? I saw -- yes, Kevin.

Kevin Cammack - *Cenkos - Analyst*

I've actually got three, if that's all right. Firstly, just, well, clarification as much as anything. I assume the Directors' valuation charts you were going through included communities in that number.

Duncan Magrath - *Balfour Beatty plc - CFO*

Yes.

Kevin Cammack - *Cenkos - Analyst*

Could you also -- in view of the discount rate you've assumed in there, could you give some indication of what sort of discount rate was achieved on the Connect sale?

THOMSON REUTERS

Duncan Magrath - *Balfour Beatty plc - CFO*

Yes. It was actually in the Director -- perhaps I'll answer it in a slightly different way. It was in the Directors' valuation at GBP14m and we sold it for GBP16m. So effectively it was in the Directors' valuation at effectively that 8% discount rate and we sold it for more than that.

Kevin Cammack - *Cenkos - Analyst*

All right. Just turning to the cash position at the half and where you've steered for the year, if we're in a situation now going forward the next two or three years where mix of business, etc., puts increased pressure on holding those cash balances, and potentially some of the items that you've talked about, certainly in power, that could be spent there, is there a level of cash that you need to sustain in view -- well, certainly in relation to the US, where you are getting anywhere in danger of getting close to?

Duncan Magrath - *Balfour Beatty plc - CFO*

We're definitely not in danger of getting anywhere close to an issue in terms of where we are in terms of cash, no. I think all we're flagging up is the nature of the business is changing. A lot of projects, where they're project financed, you'll find that there can be very good cash flows coming out of project financed projects. They could be in the US or in the UK.

If we were moving more into a commercial market environment, for instance private sector, it's less likely that we're going to get some of those advance payments. It'll also be driven, frankly, by -- the absolute level of cash will be driven by the volume of new work that we're winning, because obviously it would -- the contracts will stay cash positive, and as work picks up that will benefit the cash as well.

So I think where we are at the moment, we're in a position in the cycle that's simply a bit of a change in the mix of business and we haven't yet got the pick-up in the new work that -- and so I think you will see a short-term dip in the cash and then, can I say, normal service will be resumed shortly thereafter.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

But it's a very interesting question. The problem is it's also a very complex question. The bottom line of it is, as the mix of our business changes, so -- and indeed as the Construction segment of our business ebbs and flows, which it will do over time, so the amount of cash that we actually need to be -- we believe we need to be holding will move. And that's a dynamic position.

I think the first point that is absolutely key, and Duncan's point is right, at the end of the day we are nowhere near hitting a point where we're concerned about the level of cash that we're holding. We have a significant amount of liquidity in our balance sheet. And that, in part, is clearly the reason why we are able to contemplate continued investment behind our core businesses.

Kevin Cammack - *Cenkos - Analyst*

So, brutally, you'd have at least a three figure headroom?

Duncan Magrath - *Balfour Beatty plc - CFO*

Absolutely, yes.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Yes, three figures. I think I know what you mean by three figures there, but yes.

Kevin Cammack - *Cenkos - Analyst*

Yes, absolutely. And the last question, just in a sense following through from that and obviously in view of what you've said about the first half, i.e. dividend up more than earnings, how long would you be prepared to continue that sort of theme? In other words, given what's slightly changing in the business, to what level would you take cover down to, if you're tactically still wanting to move the dividend?

Duncan Magrath - *Balfour Beatty plc - CFO*

Yes. I think we've operated at probably a higher level than a lot of people in terms of dividend cover. We've been up at 3. We were certainly happy to see that drop down from there. I'm not sure we haven't set as a Board a minimum level. But I think it is the simplest way of saying we are committed to trying to increase the dividend, even during a period of flatter earnings. So I think we'll just have to assess it at each point, but the commitment's there.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

But I'll make the point that there's nothing in the way we see the world at the moment that is different to what we -- to when we embarked on that dividend policy. So we would for the -- certainly for the foreseeable future, we would expect to see that dividend continue to rise.

Kevin Cammack - *Cenkos - Analyst*

Okay. Thank you.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Mark.

Mark Hake - *Bank of America - Analyst*

Yes. Good morning. It's Mark Hake from Bank of America. Three unrelated questions, please. Firstly, can you give us a feel for the size of the Australian business in the two relevant areas?

Secondly, Ian, you touched on signs of recovery in the commercial space in the UK. Again, could you flesh out your comments there? Are you talking, potential, some orders coming through in the second half, or is it much more tentative in terms of enquiries?

And then, finally, just in terms of UK nuclear, you said obviously it's slightly on the backburner at the moment, for obvious reasons. But at what point do you think it comes back onto the government agenda, because clearly it's a must do at some point, presumably?

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Okay. The size of the Australian business, we have -- actually, we have several parts of our business in Australia. The largest part of that, as I said, is PB. And I will quote the figures wrongly here, I'm sure, but around about 20% of PB's business is in Australia, and that is in a mix of activities through transportation, urban planning, and particularly in the mining sector and indeed power as well. And it does cover a lot of bases and it is a very strong indigenous business.

We also have a longstanding business in power transmission, which we operate in joint venture with the United Group there, and that's been a much smaller level of activity. There are -- I'm trying to think now -- a few tens of millions of Australian dollars of activity in that market, and that's been very successful over recent years. And we have periodic, although I think very little at the present time, but a number of things in prospect, periodic activity in the rail sector in that market.

What was the second question?

Duncan Magrath - *Balfour Beatty plc - CFO*

The signs of commercial pick-up and whether it's more than tentative.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Well, I think -- again, I'm perhaps -- we're seeing the output from this rather than the input, and there are people that will probably give you a more incisive answer than I can. The point that I would say is that -- and indeed I would urge you to get more color on that to have a chat with Mike Peasland, who runs our UK Construction business, afterwards.

But as far as we can see, there is a consistent theme of work coming out in the London market, and that is noticeably picking up. Now, it is still -- we're still picking up at an anecdotal level rather than absolute. We can't discern an absolutely clear market trend there. But to the extent that I personally talked to the developers in London, yes, they do see opportunity in the market now and are certainly looking at how they do it. There is far less evidence of that happening outside London at the present time. So, yes, I think it is very definitely a theme.

And having said that, I've now lost the third question.

Duncan Magrath - *Balfour Beatty plc - CFO*

UK nuclear.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Oh nuclear, yes indeed. No, I don't think -- nuclear hasn't gone away, and indeed the government hasn't put it off the agenda, in fact far from it. If you look at the things coming out from the -- from Charles Hendry and the like, it is absolutely on the agenda. What they have to do is to ensure that the safety case, and particularly the seismic case around nuclear, particularly after the issues in Japan, is robust. But it still remains a core element of government policy.

And whilst in a sense there are others who can speak to that better, my expectation is that we will see the major players in that market, and clearly EDF are at the front end of that, pushing ahead with their program. And we are still working intensely with them, but we certainly would expect to see significant activity of that through 2012.

Andrew, do you want to comment further?

Andrew McNaughton - *Balfour Beatty plc - COO*

There is evidence the government is progressing with what it needs to do, to pave the way for a nuclear program. Before the summer recess, they agreed to significant steps which allows EDF to progress with their development. And also, as Ian was saying, about the safety case and the development of the technologies, so those have been put in place. Only a couple of weeks ago, EDF received the planning permission for their enabling works at Hinckley, which again was a key step, which brought all the borough councils together to give the planning development phase.

So EDF are definitely certainly moving forward in their plans. And we're also working closely with Horizon, which is RWE and E.ON, who are in the process of continuing to select their technology. So in the background there's work going on, and those are the two key customers that we see for nuclear power in the next few years.

Ian Tyler - *Balfour Beatty plc - Chief Executive*

Any other questions? No? Okay. Well, ladies and gentlemen, thank you very much for your time and attention there, and we're certainly around for the next few minutes if you want any further discussion.