Balfour Beatty
2014 Full Year Results Presentation
25th March 2015

Introduction

Leo Quinn, Chief Executive Officer
Good morning everybody, welcome to the Balfour Beatty Final Results for 2014. I'm joined today by Duncan Magrath, who is our Finance Director and who you all know and our new Chairman, Phil Aiken, if you'd like to stand up for a few seconds, take a bow there Phil, good. Welcome on board.

I'm going to do a few introductory slides to set the scene and then Duncan will take you through the financials and then I'll take you through some of my perspective after some 12 weeks with the company in terms of where we are.

Let me start. I think it's quite important to understand that Balfour Beatty is a very large company, it's £8.9bn, operates on four continents and it is a complex organisation. As a result of which this is going to be a complex transformation and it is like turning an oil tanker, it's going to be slow, but it is going to be deliberate. And I think in my first communication with employees is that we're going to have to make some bold decisions very early on and then we're going to sort of put the foundation in place to build this company to last. And I'll take you through our initial steps in that.

2014 I think could be described as a pretty awful set of results, pretty horrid in themselves. They have exposed some underlying weaknesses in the Group in terms of its devolved management, its poor control, and really its lack of cost and more importantly cash management. I have to say that from a personal point of view cash management is the number one priority for me in the next 12 months. And by the end of this presentation I hope you'll understand more and why.

The great thing about this company is that we've got some fantastic strengths, we've got a strong brand, we're in business for over 100 years, we've got some great capability; engineering wise, design and delivery, we've got committed and skilled employees. And our second number one priority is to make sure that we retain the best and the brightest of those. And we also retain the confidence of our customer. These are all very important things if you're going to build a company to last in the future.

As you know this is week 12 for me, so these were really my initial observations around Balfour Beatty.

We spent a lot of time talking about the UK Construction business, we continue to look at it, we look at the contracts and how they're performing. We continue to do costs to complete. We've just taken a new additional write down in that area of £118m. The thing that I'm looking at and focused on is the fact that over the next 24 months, I think all bar one or two of those contracts will be completed, the majority of which will be completed in the next 12 months. So getting those out of the pipeline is really, really important and getting the focus back on new business.

As you know today we've announced that we are going to suspend the dividend for 12 months and the primary reason for that is that we have some very large cash calls on

the company. We have - obviously the provisions that we've taken actually have to be paid for, so although they've hit the P&L they haven't actually come out of the bank account as such. The great thing is that if we don't have to use them they won't have to come out of the bank account, but we are provisioned in terms of what we believe is required.

Secondly is you know we are investing in the future and therefore we are committed to continue to maintain the equity investments that we're putting into our Investment business and that's some £110m.

When I put those things together with the fact that this is a complex transformation, that there still remains lots of uncertainties out there, and then I sort of add to it what is the 2014 cash profile for the company you can see that we actually had cash pouring out of the company every quarter and it was the sale of the Parsons Brinckerhoff at the end of the year which brought it back to cash flow positive. So it's really important that we understand that this is an underlying dynamic in the company and that it's something that we actually have to better understand, I'm not confident that we understand our cash flow at this time.

So with that as a backdrop our number one priority is to maintain balance sheet strength. As you know we cancelled a share buyback which was some £200m, we've been working with the trustees of the pension fund for the last two months in order to re-phase the £85m which was contractually committed to be paid to the trustees and I'm grateful for their support.

We’ve announced this morning that we're going to suspend the dividend for 12 months, which is a sensible prudent thing to do.

We also need to maintain financial flexibility and I'll give you a little bit more insight into this later, but fundamentally the assets within our investment fund, a few of them are coming to maturity, we are selling these assets into a strong market for the reason that it's the right time to sell them, it also frees up cash in order to reinvest in new growth opportunities, but it also drives earnings and additional cash flow, so that's important to us.

Also to ensure we have further financial flexibility we've announced and launched our Build to Last programme, the first phase of which is to get £200m of cash in and £100m of cost out of the company. This is an integral part of the first phase of our Build to Last programme and we're going to look to do this transformation using self-help.

On that note I'm going to hand over to Duncan to take you through the financials.

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Financial Review

Duncan Magrath, Chief Financial Officer

Thank you Leo and good morning everybody. The results for 2014 were not only extremely disappointing but they were difficult to navigate, with the impact of disposals in various stages of completion, along with some very poor results from Engineering Services, distorting the total results.

I will navigate you through this over the next 20 minutes. The figures at the top of this slide are on an underlying basis, i.e. excluding Rail Germany and legacy ES contracts which have been presented in non-underlying. It is these figures that are referred to in subsequent slides unless stated otherwise.

At the bottom of the slide we've shown the revenue and loss after adding back those legacy ES contracts.

Overall for the year as a whole we saw a 7% reduction in the order book but revenues increased 2% on a constant currency basis. I will go into the details later.

You can see that profit from operations, pre-tax profit and underlying EPS were all considerably down on 2013. Cash particularly benefited from the disposals proceeds from Parson Brinckerhoff and we saw an inflow of working capital in the second half of the year, which resulted in a year end net cash position of £219m, up from net debt of £66m last year.

We continued our active disposal programme during 2014 of investments from our portfolio, but I'll show you later how despite this the value of the portfolio remained constant on a like for like basis and once the revised methodology is taken into account the value of the portfolio increased to £1.3bn by the end of the year.

So whilst we ended 2014 with a strong balance sheet from both a net cash and an investments perspective, given some of the uncertainties that exist in our business we are not proposing a final dividend and so the full year dividend is the 5.6 pence declared at the interim.

Now to go into each segment separately; just a reminder that these figures exclude legacy ES contracts and Rail Germany. Overall at constant currency we saw a modest decline in the order book, with the US flat and declines of 5% in the UK and 3% in the rest of the world.

In the US the increase in the order book in the Building business since the beginning of 2013 continues to feed through into revenue growth and order intake has continued to increase, resulting in an order book at the end of the year that is in line with last year. Order intake in our Civil and Rail business was down on the previous year.

In the UK both order book and revenue were down 5% for the year as a whole. We have pulled out of some markets and will continue to be more selective in others. A

strong order intake in the Far East over the last couple of years is continuing to push revenue up, we are starting to see a rebalancing of order intake in Hong Kong, away from some very large Civil infrastructure projects where there has been a slowdown in the approval of public projects and back into buildings.

In the Middle East we've seen significant improvements in the building market in Dubai, but continue to be very restricted on bidding new work in our M&E business.

Now turning to Support Services, overall the order book declined by 14% in the year with 18% falls as expected in both Transport and Power, partially offset by a 49% increase in Water as new contracts are signed for the start of AMP 6. In addition we've signed £270m of orders in the Water sector since the year end.

Revenue in Transportation was somewhat stronger than we expected. Rail benefited from the finish of our Network Rail renewals contract. In Roads we saw a very strong performance in both our Highways services and Local Authorities work. In the Local Authority business strong revenue growth came from executing new contracts, one in the previous year.

Water was stable in the period and we saw the anticipated drop in Power revenues as there is a slowdown in the power transmission market.

Turning now to overall profit by segment. The overall profit performance is obviously dominated by Construction Services and I will discuss this in more detail shortly. Support Services had another strong year, with particularly strong profitability in Highways Services and Local Authority Services.

Infrastructure Investments disposal gains increased by £11m to £93m in the year. In addition there were £15m of gains in the first half from improved forecast infrastructure cash flows, offset by some increased costs related to Construction.

Profits reduced in the US Investments business as military housing construction comes to an end, along with some increased bid costs.

The total underlying loss after corporate activities was £58m. These figures exclude £88m of losses on legacy ES contracts, which if included brings the total losses from operations to £146m for the year.

Before turning to give more detail on the Construction Services segment I will deal with non-underlying items.

This slide deals with the middle column from the face of our income statement. You will see that there are non-underlying items related to both continuing and discontinued businesses. There are £112m of losses from trading in the year, £88m of these relate to the legacy ES contracts and £24m related to Rail Germany.

Whilst we have managed to sell some parts of the Rail Germany business we still have the electrification and signalling business remaining. There is one particularly difficult contract within this business that's caused a significant proportion of these losses.

There were £97m of non-cash impairment and amortisation charges in the period, including £56m of goodwill write downs on Rail Germany and Rail Italy. In the UK we've decided to focus all the Oracle activity on completing the rollout across UK Construction and have stopped the Support Services implementation. This has resulted in a £21m impairment.

£37m of restructuring costs were incurred in the year. The two most significant amounts were £11m for the actions we took in UK Construction towards the end of the year in closing down a number of delivery units and £14m for further costs for transitioning activities into the shared service centre.

Finally the largest single item within non-underlying was the book gain on disposal of PB, which was a profit of £234m after writing off goodwill of £227m.

Before looking at the analysis of the Construction segment I will deal with the additional contract risk provisions. In January, having just received the results of the KPMG review the Board announced that it would assess the overall level of contract revisions in the UK Construction business in light of the operational issues identified within it and it would announce the outcome of that review at the full year results in March, i.e. today.

The Board has now completed this assessment and concluded that a further contract risk provision of £118m is appropriate. £67m of this relates to specific contract positions taken at the year end, incorporating a greater degree of caution, principally in respect of schedule and cost delivery. £7m of the further risk provisions have been recorded against legacy Engineering Services contracts and hence are shown in non-underlying trading.

£51m of this write down reflects a more cautious approach to contract out turn forecasts across the remainder of the portfolio, which were not specifically included in contract reviews and excludes all of the Engineering Services contracts.

Now turning to the detail of the Construction Services segment. On this slide I've broken down the Construction Services segment by operating unit. At actual exchange rates the US business was slightly ahead of last year. Overall the contribution of the 80% Building business and 20% Civils business delivered a combined 1% margin.

2014 did continue to benefit from higher margin military housing work, which is being replaced by lower margin work. Whilst we have some evidence of improved margins starting to come through in the Building market it will take some time to feed into our results, emphasising the importance of the Build to Last programme to help reduce costs.

Given the scale of losses in ES which accounts for less than 10% of our UK Construction business we have separated out. As noted earlier the part of ES which relates to projects in London and the Southwest where we have stopped tendering work to the external market is classified as legacy ES contracts and is shown in non-underlying. Work elsewhere in the UK where ES is a subcontractor or in JV with the rest of the Group in London remains in the ES underlying category and where GS has also recorded losses.

However you split it the losses in ES have been on an extraordinary scale and finishing and closing down these projects and pursuing rightful claims is clearly a huge priority for the business.

Even excluding ES, elsewhere in UK Construction the performance has been poor in places, again largely concentrated in London and the South.

In Rail UK and International losses have been reduced and we continue to reduce our presence overseas. We are not currently bidding any work in this business outside of the UK, although of course we continue to have operations in the US and Germany.

In the Far East we've seen continued strong revenue growth, although the long term nature of the large Civil projects and the delays we have experienced on those projects means profit recognition continues to lag revenue growth.

In the Middle East as previously noted we have a Construction business in Dubai benefiting from a growing market, offset by an M&E business with some challenging projects. Two projects in particular have been written down where we believe we will ultimately have significant recoveries from the main contractor, although this will take time to materialise.

Firstly it's worth pointing out that each of these four graphs is repeated in the appendix of your pack, so you can look at them in more detail, but I wish to give you overall headlines from this slide.

A year ago I said that I expected a £60m outflow related to UK Construction, but expected the net position for the remainder of the business being broadly neutral. This is largely what we have seen, although on an underlying basis the UK with negative working capital as a percentage of revenue that's just under 11% at the year end is about 1 percentage point less than I expected. In total the UK finished the end of the year with a significant spike in working capital as a function of the additional write downs we booked. I've shown the £188m of write downs in red and also the percentages are shown both with and without this impact.

You can see that working capital in the US has been pretty stable over the last three years. Support Services ended up the year with an £18m positive balance as anticipated a year ago, an improvement on the half year position. Overall we saw a small improvement in negative working capital in the second half on both an underlying and total basis.

Clearly working capital management remains an important issue and in the UK there remains some political risk around payment terms. We also need to consider how and when the year end write downs may convert into cash outflow, plus the impact of any volume reductions from withdrawing from selective markets in London and the Southwest.

Yet again it's been both a busy and successful year for Investments, investing into new opportunities. We reached preferred bidder and or financial close on 16 projects, four in the student accommodation arena in both the UK and the US and three each in housing and hospitals. We reached financial close on our first infrastructure fund with a total commitment of $618m. Overall we invested £73m in 2014 into new projects. We continue to have a very healthy pipeline and we've committed investments in 2015 of circa £110m.

Turning now to show how the value has moved over the year. I've shown the impact of movements in the year on the directors' valuation on a like for like basis. This shows that the value of the portfolio remained almost exactly where it started, ending at £769m, even after receiving cash net of money invested of £178m.

At the bottom of the table you can see the three components of the change in methodology and estimation which has increased the directors' valuation to £1.3bn, which we had supported by an independent valuation when we announced this in January. The biggest component of this is clearly the £376m improvement in the projected cash flows, which have now been incorporated into valuation. Please remember this is the directors' valuation and does not directly feature in our financial accounts.

Cash used in underlying operations of £192m reflected the loss in operations in the year. This has improved since the half year, although as noted earlier the impact of the year end provisions is still to be felt. As previously discussed we did have a significant amount of non-underlying items, particularly the legacy ES contracts which had a significant negative cash impact.

You can see through that this poor trading was offset by the significant proceeds we achieved on investment disposals and the sale of Parsons Brinckerhoff.

Turning now to balance sheet matters. I've shown this slide a number of times before but just a reminder that the aggregate shown as a green line is a combination of net debt and working capital from the balance sheet and the directors' valuation of the investments portfolio. The aggregate has improved significantly in the year due to the improvement in the directors' valuation, but also due to the impact of the Parsons Brinckerhoff disposal. It now sits at £787m and shows the strength of the year-end balance sheet.

On the right hand graph you can see that we have plenty of liquidity headroom with the debt and facilities we have in place, the only significant change in the year was a reduction of £190m, in our main UK facilities on the disposal of Parsons Brinckerhoff.

When thinking about the balance sheet it is also important to consider the pension deficit, which I will now turn to. We have seen a further reduction of 0.4% in the real discount rate in 2014; this is the 5th year in a row that we have seen a reduction in the real discount rate. Despite this we have seen a very large reduction in the accounting deficit with a very significant actuarial gain on the assets. This is probably contrary to what you have seen elsewhere and so requires some explanation.

Of the year end deficit of £128m, £12m relates to our biggest pension scheme, which is circa 90% of the pension liabilities, the other two schemes are both related to our Rail business in the UK and Germany and also some deferred compensation plans whose offsetting assets are shown elsewhere in the balance sheet.

On the next slide I'll show you why we've had such a good asset performance this year. There are two components to this slide, on the left hand side I'll show you the percentage of liabilities that have been hedged and on the right hand side the impact on the deficit.

Turning first to the percentages liabilities hedged. At the end of 2009 we had 51% of our interest rate and inflation risk hedged, measured on an IS19 basis. By the end of 2014 this has risen to 108% on an accounting basis or 65% on a gilts basis. This increase in coverage has been achieved through increasing the component of gilts in the portfolio, but also through inflation and interest rate swaps.

You can see on the right hand side that for the Balfour Beatty pension fund the deficit has reduced over the same five year period from £476m to £12m. If we had left our hedging strategy as it was in 2009 our deficit would have been £290m higher than this and would consequently be showing a very different picture at the year end.

So to summarise, overall a very disappointing performance in UK Construction and the Middle East, elsewhere we had strong performances for both our Investments and Support Services businesses. Despite the poor trading performance we ended the year with a strong balance sheet with £219m of cash, an investments portfolio with a directors' valuation of £1.3bn and a significantly reduced pension deficit. Now back to Leo.

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Business Review

Leo Quinn, Chief Executive Officer

Thank you Duncan. Moving on, I think it's worth spending a few seconds to understand how did we get ourselves into the position that we're in today. And it's very interesting; I put this down to something which I've seen a number of times before which I called forced growth. And it's fundamentally where a business and the leadership of the business and that's the Board and the Executive are more focused on driving the top line rather than driving earnings, in the naïve belief that if I keep driving revenue I'll get additional incremental recovery on my overhead and I'll keep driving a good earnings stream.

The reality is is that it ends up driving an extraordinarily complex business, the acquisitions don't get integrated, you take on more and more risk, you lose control, costs get too high and then when you run out of cash and capital you can't acquire any more to cover everything up. You end up with situations like £8.8bn of turnover and no money in return for it.

You know this isn't new it happens a lot of times, and I have been personally involved with both Qinetiq and DeLaRue where it was exactly the same symptoms. So unfortunately there's nothing new here and I actually put it down to a failure of leadership and a tragedy that such great companies get themselves into these situations when it's totally unnecessary.

Balfour Beatty, the way I look at it is what a fantastic place to start from, you know a strong brand, it's about a hundred years, we retain the customers' confidence, I've only been here 12 weeks and I've probably met with the top dozen customers, whether it be the London Underground, the Olympic Authority, right across the base and our customers are willing us to be successful.

I have to admit the reason they want to meet with me is to make sure that somebody is in charge and that someone is actually looking after the bank account and we're going to be around to finish their job. But I think that's important, you know, that we are important to our customers. And this will pass and we will get through it and those customers will still be around in the future.

They bank on our specialist engineering and that manifests itself in many prestigious wins, whether it be Thames Tideway, the East Wick and Sweetwater housing development, all of these are real large jobs and involve really complex engineering.

I met with a customer recently that wanted to look at us for a billion dollar contract, or sorry a billion pound contract, and it is interesting that we talked about engineering capability which was important to them, but they also need our balance sheet. This particular customer has already engaged two of the largest contractors in London on their project and they can't give them any more work. So we have to understand when we come to a negotiation with a customer we come from a position of strength, not just engineering capability, but also the balance sheet to fund a very, very large job. We should actually be paid adequately and make good returns for that risk that we're taking onboard.

Within the Group there are material synergies between our Investments organisation and our Services and Construction business and I'll touch on this later. And we've got an employee population that even though I've been here 12 weeks they are just embracing change, they are really looking for leadership and they're looking to be led from where they are today to a successful company that we used to be. I have been impressed by the energy of the people and their excitement about doing some really interesting stuff.

So when I look at companies and I look at this one, I think to myself, you know this is not a bad place to start from. And so I'm relatively upbeat and optimistic.

What have we done in the first 12 weeks? Well of course we've been ongoing in terms of analysing UK Construction, you've had the KPMG work, etc, and you've had a lot of Deloitte's work and also scrutiny by the Board.

In terms of our US Construction, we've started a review over there, we're doing a red flag review to make sure we're not going to find any surprises. Nothing at the moment has come to light which is good news. However, in the first week of January I did replace the finance director because I wanted somebody in the position that was objective and independent, therefore my level of control in terms of insight into the business.

We've carried out an investment directors' valuation which has been very constructive and helpful, we're looking at the UK support organisations, just understanding how many support people we have and what the costs are, and cash management is a real thrust across the organisation and something which is quite a unifying call for the organisation.

Still to be actually reviewed is UK Services, the Construction joint ventures in Asia and the Middle East, and in actual fact this weekend I'll be in the Middle East. The US Infrastructure businesses, International Rail and again the optimisation of our investments portfolio, while a very attractive business it does require money to be put in as equity, which is risk and it does actually produce a return. And we need to have a very clear strategy around how we're going to manage that for the future in the light of other calls for cash in the company.

In terms of what's the opportunity, I think it's very simple here, when we benchmark Balfour Beatty's costs versus the overhead costs at the Group level versus competition we're about 1% higher than the average, and that to me equates to about £100m. So I think our cost opportunity in the first phase is really how do we get back to industry norms.

In terms of cash outflow, not only did we have a large cash outflow last year, pre the sale of Parsons Brinckerhoff, but if we look over the last five years, we've seen a sustained outflow and reduction in our working capital. So to my mind we've set a target that says we want to address that decline and actually turn that around.

The good news is that we're going to be doing all of this in what we think is a favourable market with a good outlook. So I think there's significant opportunity in this turnaround for self-help. What I actually tell people is that if you try and grow your way out of a problem you are reliant on orders and revenue and you can't force customers to give you orders and revenue. This sort of transformation is about cost and cash and therefore those are things that are under our control and therefore there's far more probability of success doing this type of transformation then trying to grow your way out of a problem. So I'm comforted by the fact that I control most of the actions that will deliver the result.

In terms of our Build to Last, this is something I'm very strong on. Why did we call it Build to Last? It's what Balfour Beatty does, its roads, its bridges, all of those things are things that will actually survive us, they'll be standing and still be used long after most of us are gone, particularly me by the way. But that's what we want to do with the company; we want to build a company that's going to last, something that's going to be around for another hundred years. And we're going to build it on four major planks. The first is lean, the second is expert, the third is trusted and the fourth is safe.

What do I mean by lean? Lean to me is the - as a company ourselves we need to lean our costs out in order to be competitive with the marketplace. So it's about leaning out our processes internally, taking cost out and making sure that we're industry competitive.

The second part of lean is about our customers and it's about how do we actually ensure lean delivery. I've chatted with many customers, the Highways Agencies and others and it is interesting, nobody objects to Balfour Beatty or the construction industry making a profit, what they are appalled by is actually the waste, the waste that goes on in any delivery. It's either the waste of material or poor scheduling in that something arrives and something isn't ready.

So the fact of the matter is I think there's a prize to be had by eliminating the waste and sharing that with our customers and ourselves. So lean is very, very important to us.

Expert is about our competitive advantage is our engineering capability, that's why people come to us, that is actually housed and contained in people. So actually ensuring that we actually recruit, retain and train the brightest is critically important to us. And it's more critically important today than it has been for the last five or six years because the market is now starting to move and there's not enough talent to go around.

So as we do this transformation it's really important that we get our people to understand that we're built around engineering capability. So we not only have to ensure that these people are given the best, most exciting, most interesting jobs, but we've got to give them the best development, the best training, the best leadership so that they stay within Balfour Beatty to deliver those skills and expertise. So while we're leaning the company out, while we're leaning out our processes, we've got to make sure that those people that add value are actually retained, developed and cultivated.

In terms of trusted, trusted to me is very, very simple; it's about do what we say we will do, deliver on our promises. The other side of trusted for me is something called business like discipline contracting. It's about having grown up conversations with customers about what it takes to really deliver what they want and ensure that the scope is correctly understood, the schedule is agreed and that the terms and conditions are correct.

I think the symptoms of the problems that we have today are all underwritten by what are poor contract terms. You know it's not critical to the success of this company whether or not you make one or two percent margin. What is critical is that you take on

a long term liability, or uncapped liquidated damages that stay with you over a long period of time and then when you look back you see you've got a real problem and there's real cash outpouring from the company. I think a lot of what you're seeing in Construction UK today is largely around the terms and conditions that have been signed up to historically and the liability that Balfour Beatty has taken onboard, which in some cases are just insane or suicidal.

The good thing is, is that we are starting to put in place oversight and attention to detail where these things can't slip through and I'll talk about that in a few minutes as well.

The last part about our Build to Last is about safe. You know everybody deserves to come to work and go home in a safe condition and if possible in a better condition than they come to work. You know safety is a licence to operate, if we get safety wrong there are many of our customers today, some of our largest customers that will not do business with us. So there can be no compromising in terms of safety.

And what's important is while we transform this company and we lean the company out and we invest in people, we've got to keep the investment in safety up. And this is something that you have to keep building on; you cannot take it for granted.

The measures we want to use for all of these are operating cash flow, EBIT, employee engagement, retention, customer satisfaction and zero harm. So what gets measured in my world gets done and these are the things that we're going to actually start to measure.

So we've launched the transformation programme, remembering this is week 12. We also announced today what the two main targets are and those are £200m of cash in and you can see from the previous graphs that there's plenty of ample opportunity for that and £100m of costs out. The components of the cash in to my mind are better commercial management in order to stop cash pouring out, better management of working capital. We have all of these problem jobs, you know, it's not black and white as to where the fault lies, but we've got to make sure that we handle the claims process properly.

Within that we've got to make sure that we've got a better supply chain, because if there are faults on jobs and defects we've got to make sure that those people who subcontract to us, are actually where the responsibility lie, also fix those faults and actually pay for them. And also it would be novel to ensure that we've got profitable revenue going forward. All of those things make a big contribution to cash.

In terms of cost, there are many, many levers here, we're looking primarily at the back office, we have about £500m of Group costs and we're looking to take about £100m out of that. There's ample opportunity in terms of the way the back office functions. And what we're doing on a geographical basis is rather than run with the federated company that we have today where we have 20 odd divisions, each division has a complete staff of IT, legal, finance, HR, etc, etc, we're taking those particular functions and we're standardising them across all of the businesses.

In the case of IT just as a for instance where there is a very, very large spend going on we recently looked at the organisation, we were told there were 400 people in IT, and we now understand there's 500, that's the degree of inaccuracy that we seem to have within understanding what our back office and control costs are.

In the case of IT, looking at the organisation I think we've come up with 32 people who have either the title of director or head of, you know you don't need 32 directors and heads of to run an IT department in a company, even the size of Balfour Beatty. So I see substantial opportunity to lean out these back office costs. In certain areas we've already started on employee consultation to start leaning out these areas.

Property we'll be looking at and procurement is an area that despite - you know just in the UK alone I think we spend £3.2bn a year. The savings have been enacted which actually go through to the bottom line are actually quite minimal. So again, I see great opportunity there.

There was a story where I was told recently that we had a £6m rebate from one supplier in terms of money that we get back because of volume spend and that it's due to be credited to us at the end of the year. I was intrigued because I looked at that as that's £6m of our money that we've given to somebody as free working capital. So we're going to sort of bring some business like common sense to the business as well while we're doing this process.

So Built to Last is the programme. What's important about this and I really want to get back to this thing about expert is that we have to protect our frontline capability in what is a market that's now moving very, very favourable towards growth. And this is all focused on the back office. The front office is ring fenced, those people touching customers and delivering to customer are going to be actively protected in my world, so frontline capability is important to us and it has to be persevered. So this is a very difficult balance that we're taking on here.

In terms of actions taken, this is perhaps the slide I'm most proud of in that in terms of leadership we're strengthening the Board, I'm pleased to welcome Phil our new Chairman, you've got a great CEO, that's me in case you don't remember, and our CFO hopefully will be joining us very soon when we can prise him out from his current employer.

We've recruited a head of commercial worldwide; he comes to us with ten years of running a global commercial function within Rockwell. And this is a guy who is hands on, we don't need any theoreticians, these are people who get engaged in contracts, in problems, but also making sure the problems don't occur so you're in at the front end of the bidding. We're upgrading our whole procurement organisation and we've got new leads on the IT organisation.

We're doing quite a lot in IT at the moment we're looking at a hardware upgrade, standardising around circa one email back office for reasons of security and reliability, but also rolling out an Oracle implementation. You wouldn't choose to be doing all those

things at once, but we've decided that we are and we're trying to - how do I say it, trim that down a little bit at the moment.

In terms of UK Construction in view of all the challenges there we're appointing a new Chief Operating Officer within the regional and the ES - Engineering Services business. Culture, we're moving away from a federated in the back office to a One Balfour Beatty where we're going to standardise and lean out. We're launching My Contribution, which many of you might think of as Six Sigma or something like that in terms of continuous improvement where what we're doing is engaging the productive talent and engineering of our 36,000 employees. Everybody has good ideas; we're just want to tap into them.

And then our incentives are going to be aligned around those key goals of cash going forward, for everybody. That by the way is a sea change, we've got a single target for the company on cash, everybody is measured on that target. And it is interesting, people are rallying around the fact of cash, and I'll touch on it later, but in case I don't it is interesting that the employees' reaction has been - we used to be really good at that, but nobody has really paid too much attention to it recently.

So the fact that we've brought it back and put it on the table has really got people excited around the fact that this is the way a construction business operates and are managed. If you don't pay attention to things people don't actually focus on them.

In terms of the programme Build to Last, we've got a programme office in place, we've got a new governance system in place, and we've got work stream targets out there. We've actually had a kick off meeting with the top 100 people in the UK, the top 100 people in the US, and we do have a head of steam. Last Monday I think I had the third review of the UK organisation with different departments, different functions and there was a real energy in the room and things are actually starting to happen.

We are making significant infrastructure investments around IT; we've got the Oracle implementation. The first thing we done here is actually refocused that. We were going to actually do it to the whole company across the UK, that just is too much risk. Our UK Services business runs well, it's got 90% of the transparency it needs to run a great business, we're holding that safe while we're actually putting all the effort into the UK Construction business and making sure that works.

We've done Drop 1, we have had challenges around that because of the cleansing and the data that went into it, and we're working our way through that. We've delayed Drop 2 from March out to July and we'll be doing that after the first half close. But again this is a big, big deal for us and it's something that we need to manage very, very carefully. So we've upped the resources in that area to make sure that we've got the maximum probability of getting it right.

Again it's another uncertainty that we have in the business which we'd rather not have at this time.

We're putting in place sales and cash dashboards across the company, and we're standardising management reporting, financial et al, around a common information pack. The first of which is now starting to be used.

And it is interesting, the way we want to drive the business is a little bit like a car, every business has the same dashboard so we all know what the dashboard looks like, whether it's your petrol gauge, your speedo, or your revometer and therefore we end up with a common language across the company. This is not something that we have today; so real rapid momentum in terms of Build to Last as a programme.

Very quickly, it is worth bearing this in mind is that our next 12, 24 months cash flow and earnings are going to be underpinned by our Investments business. Again, it is important to understand that there is a yin and a yang with Construction Services and Investments in that you know the Investment business takes risk; it invests equity in projects across multiple markets and technologies.

A lot of those leads come from our core skills and expertise; whether it's in Services or whether it's in Construction. That gives us access to many, many opportunities which when you look at our competition we're talking about 66 opportunities on our slide, having spoken to many of our competitors and seeing what they're doing is they're in low single digits in terms of the number of opportunities. So there's a real head of steam and momentum here. What we've got to be careful is that we manage this growth to success.

The directors' valuation we completed and we've got about £1.3bn of value. If you look at the two graphs we've got here it's very interesting. You'll look between 2011 and 2014 you'll see that we've started to actually divest ourselves of some of these businesses. And those divestments have been integral to the company's cash flow, but also integral to our earnings over those years.

Going forward we will continue that investment because that investment in the short term allows us to get cash flow and earnings for the company. In the medium term those investments will earn us cash which will underpin the progressive dividend. And in the longer term the investment and the sales proceeds will accelerate high quality returns, much higher quality than the Construction business in total.

It's important from this graph that you can also see that we are committed to and expect to invest I think it's about some £300m over the next five years and those projects are already out there underway.

We haven't put on this slide what our planned divestments are this year, but we will be selling off a number of assets in the first half of this year, selling mature assets into a rising market which I'm very supportive of. This has excellent potential for superior returns.

So just really in summary in terms of Build to Last, you know, the core strengths of the company are intact, we're supplementing them with some strong leadership at all levels

in the organisation. We continue to win benchmark projects, the transformation is actually underway, and we really do have momentum in what is an incredibly short period of time.

There are short term challenges, this is a big, big ship, it is a complex transformation, and there still remain many uncertainties out there. You know we may have looked at or be in the process of looking at 70% of the company's revenue, there's still 30% to go and we still need to complete that exercise.

We are going to at all costs maintain balance sheet strength and I've talked about the flexibility that we're looking to create through investments and the Build to Last programme. And the first phase is actually to drive £200m of cash in and £100m of cost out. If we get these things right we'll be well on the way to restoring Balfour Beatty to strength. But there's a long way to go.

Thank you, I'll pass over to Q&A if you'd like to ask your questions. I think what we'll do is we'll split them up, numbers will go to Duncan and sort of historical financial facts and in terms of the future and aspiration that will go to me. So we'll give you a microphone.

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Questions and Answers

Mark Howson, Canaccord
Can you just give us a feeling for the size of the cash that will go out for the provisions, you said that you've made them but you've yet to endure the cash of that? Can you give us a feel for the size of those or is it sort of pound for pound?

. . . .

Leo Quinn, Chief Executive Officer
You weren't quite clear; could you just say the question again?

. . . .

Mark Howson, Canaccord
Sorry, it's the cash costs of the provisions that you've made, you said in the statement or in here that you've made the provisions in the P&L but you've yet to endure the cash outflow on those, could you give us a feel for the size of those?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah, I think the reason we sort of highlight it on the working capital slide Mark is the red bar, effectively; assuming that we've got those provisions right then that would flow out over the next couple of years, but the majority probably in the current year because the majority of the problem contracts come to an end in the current year. If that's a particularly cautious position and it's not needed then obviously not all of it will flow in cash.

. . . .

Mark Howson, Canaccord
Just secondly from me, I hope you can hear me, the £100m, the cost reduction programme, £100m Build to Last can you say - I appreciate obviously what you want to do with working capital, get cash in on that etc, etc, but is there sort of a one off cash cost to taking those costs out as well, or is that wrapped up in the net figure that you've given?

. . . .

Leo Quinn, Chief Executive Officer
I think we should also - what is it - hope for the best but plan for the worst. If you're doing a programme of £100m of cost out usually it's best to assume one for one. That's my experience. I'm got some accountants who calculate it to three decimal places and may get a slightly lower number, but ultimately it's going to be one for one.

. . . .

Gregor Kuglitsch, UBS
Can I maybe ask around - I know it's perhaps early days but there are a number of businesses which have problems, I think Engineering Services is one, the Middle East seems to be another one and then there are some businesses which are distant, like Hong Kong, but fundamentally good; have you made up your mind as to what you want to retain in the Group say 18 months down the line, is it perhaps time to de-clutter it, because obviously there has been a chart on exponential growth and therefore perhaps there's a case to rescale it.?

And then the second question is on cash flow and working capital, can you maybe give us a sense of what you think the business has been doing incorrectly? Is there something on payment terms, you gave one particular example of a supplier rebate, but if there's other particular areas which are obvious that you can fix to improve the working capital ratio from where we are today?

. . . .

Leo Quinn, Chief Executive Officer
In terms of the portfolio, you know where we want to play, where we make money - you know after ten weeks it would probably be easier to turn water into wine. I think what we can do is we will leave that for a period of time until we've had a change to do a proper assessment and when we've done that assessment we'll be very happy to share what the future portfolio would look like.

In terms of working capital I can give you an example, a review came up recently - it was a - let's call it a tens of millions job whereby it was negative working capital, the team looked at it and we said look it just doesn't work - you know cash outflow because we're not a bank and small margin returns.

So we told them to go away and rethink and in the rethinking they did just a very ordinary thing which most businesses have done ten and twenty years ago, the inventory involved which was going to require the leasing of a warehouse to store it for the duration of the contract, it was eventually decided that we keep the inventory with the supplier, the supplier would send it when we call it off, he would hold the inventory, we wouldn't be burdened by that, we wouldn't need the cost of the warehouse. So all we've done is leaned out the supply chain, that made it a more profitable and better cash flow job. And that's just common sense isn't it really.

So there are things that you can do which aren't extraordinary where if you get people to think about the cash on the job they start to come up with different answers and it was no inconvenience to the customer and the supplier was happy to do it.

. . . .

Joe Brent, Liberum Capital
Good morning. Three questions if I may. Firstly I think Duncan alluded to political risk on cash. Is that revenue bank accounts and could you elaborate?

Secondly on the £200m of cost - the £200m and the £100m, could you give us a timing on the phasing of that?

And finally you know looking simply at the business and trying to understand what the recovered profits might be, could you give us an indication of what you'd expect sales and the margin to be? Is it a sort of £6bn business at a 2% margin? Very simply how do you see the business in sort of three years' time?

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Leo Quinn, Chief Executive Officer
Well if I hand the political cash risk to Duncan.

. . . .

Duncan Magrath, Chief Financial Officer
Yeah I think we've talked about it before. I mean there is obviously an environment of big business and payment terms. I think anything we do clearly we are going to just ensure that we stay within those terms and operate ethically in that process. And I think project bank accounts, we had I think about £17m in project bank accounts at the end of the year so it's not a big number for us, but I guess unlike the US where the environment has been stable my only point of raising it is I think it's an environment which could change, we've got an election, if people do jump on various issues. So it hasn't been a big issue for us and it's just something to watch out for the future.

. . . .

Leo Quinn, Chief Executive Officer
I think in terms of the £200m, £100m and the timing around that, you know we've said 24 months. You know it's probably best to plan around that. And I think these things build up a certain momentum. You know it does take a lot of time when you're trying to sort of restructure cost out of a company and to change processes and procedures, it doesn't happen quickly but when it does start to happen it's sustainable and it builds a momentum. So I think the right timeframe is about 24 months and if it happens earlier then all the better, you'll be the first to know.

In terms of the future size and shape of the Group, I think look far, far, far too early to actually say and pass any judgements. We've got some very, very good businesses within the Group. We've got some businesses that are challenged. What we really want to do is grow the profitable ones and look to sort of change the dynamic in the unprofitable ones. And that starts with having the right conversation about knowing your costs and ensuring that you understand the risks you're taking onboard and how you mitigate those risks. And if you can't mitigate them you shouldn't be doing the work.

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Joe Brent, Liberum Capital
And do you think you can get to 2% margin across the Group?

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Leo Quinn, Chief Executive Officer
I think in time that would be the industry benchmark. I don't think that's an outrageous number to look to get to and I think it's a sensible one. And if we don't do that we should be disappointed with ourselves.

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Joe Brent, Liberum Capital
Thank you.

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Howard Seymour, Numis
Just a couple of questions please. One firstly on the Build to Last. A lot of what you said Leo focused on the lean aspect of that. Does what you're saying there in terms of cash in, cost out encompass all the other aspects or would there be further costs associated with the sort of expert or is it all encompassing on that side of things?

. . . .

Leo Quinn, Chief Executive Officer
Yeah I would look at it in terms of my estimates around cost is that would be all encompassing. I don't think - there are other things which may go on in the Group but I

would say around that programme I think we would cap it out at that cost target that I've set.

. . . .

Howard Seymour, Numis
Okay thank you. And you mentioned on timing but obviously there is cash coming in as well as the cost of the costs going out in terms of the restructuring. Again would you sort of assume that it is a self-funding programme over that period?

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Leo Quinn, Chief Executive Officer
It's such a complex equation; I think it's very, very difficult to say it would be self-funding in the same time period. I think what will happen is you know you always end up with a situation where you get your costs upfront, you get your cash flow out upfront and you get the return later. So I think you're going to have to think about in the first period it's going to be painful because you aren't going to sort of be investing in it. In the second period you're going to get special returns for it. So it's about to me the biggest uncertainty is the next 12 months and that's what we're wrestling with so that's the challenge.

. . . .

Howard Seymour, Numis
Okay thank you. And secondly probably slightly unfair on the Middle East because you said it's not an area you've seen but current contract issues relating to M&E, do you look at these as it stands at the moment as specific contracts or is it part of a bigger endemic problem in that market as we've seen in the UK market?

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Leo Quinn, Chief Executive Officer
It's an interesting question because having worked for Honeywell for 17 years and having ended up as the Global President of the Building Controls business which was all about M&E, you know all my experience says that M&E is just such a painful business to operate in and you always end up with these bad contracts. I think in the case of the UK what's unprecedented is the scale. I mean 49 bad contracts is just - I mean how do you cope with that, just all the claims and the torturous negotiations that go on? But I think generally M&E is just a very difficult, challenged area and I think you've got to be really good at it to do it well. I'd put it down to the contracts rather than anything that's endemic or systematic personally.

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Howard Seymour, Numis
Okay, thank you.

. . . .

Stephen Rawlinson, Whitman Howard
Three if I may. Firstly on the cash in, cost out, maybe I'm being a bit thick here but if you could just help me, is that the run rate that you expect from 2017 onwards actually the cash will be £200m higher or - and the costs will be £100m a year lower. And I liked the cost question. I think on a recent conference call you did say that you'd achieve at least the 175 that another company was talking about, so could you just clarify on that one please?

. . . .

Leo Quinn, Chief Executive Officer
Yeah, no two things. I think you are looking at that sort of run rate benefit in that period of time. I think that's correct. And I think the second thing is the 175 was very clear that if A.N.Other company said they could generate 175 of savings, for our shareholders to get the same benefit we'd only have to generate half of that because they get 100% of the benefit as opposed to sharing it. So I think just mathematically 100 would actually be significantly ahead of 175 if it was offered by any other party.

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Stephen Rawlinson, Whitman Howard
Thank for that. And just on the Support Services cash, obviously a number of power projects ended and there was a spike in there. Was that in and around the issue of those contracts ending and can we expect during the course of the next six to 12 months, as you start the new water contracts, that will cause a lot of cash to go out in Support Services?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah the Support Services working capital which we've talked about before was a very specific contract where there was a large positive working capital requirement which part of that has been renegotiated so it came down. So generally as a business it does operate broadly neutral in terms of working capital.

In terms of the water contracts you generally at the start of the AMP cycle will get some costs at the start so you can have cash outflow as opposed to necessarily particular working capital issues.

. . . .

Stephen Rawlinson, Whitman Howard
So we can assume there will be a cash outflow in Support Services when they start - when they start the new water contracts?

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Duncan Magrath, Chief Financial Officer
Generally yeah but that's normally start up. I mean they're obviously starting mobilising now and in Q1 so by the end of the year that may well have stabilised.

. . . .

Stephen Rawlinson, Whitman Howard
Thank you. And just a final one if I may please. I mean you've alluded to previous experience Leo with regard to turning companies around, but I mean this industry is quite cyclical as we all know. You're actually trying to get a business to go into a recovery phase at a time when demand is going up which is good, but also demand for resources, good resources in the in sector will also be going up and therefore will be scarce. Could you make a comment if you don't mind please on your thoughts in and around that aspect?

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Leo Quinn, Chief Executive Officer
Yeah it's a great question. It's the one thing that sort of keeps me awake at night because when we laid out our Build to Last we were very clear about what trusted means, sorry what expert means. And it's about how do we invest, recruit and retain the best people. And you know part of this transformation is actually keeping people on board from that. I mean people have got to think about the fact that there's a great future here so we have to think about where we're going to be in two and three years' time, the fact that you want to be part of that fight to get there. So the idea is that this is a motivational leadership challenge that we want to keep the best and brightest on the team.

. . . .

Kevin Cammack, Cenkos
Sorry I've got three as well. But I mean just to try and put a bit of context into that last issue about staff retention etc. You know clearly the world and his wife amongst your peers have been sort of boasting how many people from Balfours have been joining them. Do you have a staff turnover figure for the last 12 months? And are you doing anything specifically differently today or into the immediate future as to how you retain those staff? I mean is there any change in remuneration, in bonus or is it simply buying into the dream as it were?

. . . .

Leo Quinn, Chief Executive Officer
Yeah I can comment on that. First and foremost I think what the employees see in a very short period of time is a very different style and very different level of intervention. They see new people coming onboard. We spend time visiting sites, we spend time having town hall meetings, we're far better at communicating. We sent out a letter this morning advising all of our employees. Before I walked into the room the reply came from one employee said this is the best leadership message I've ever seen in the

company. The idea is that you know we're actually engaging with our employees on a peer to peer basis. We all put our trousers on the same way in the morning and it's about mutual respect. So that's what I offer and I hope that people will join. Can't force them to come to work but the ones we've got I'd like them to stay and we have many people joining us at the same time.

. . . .

Kevin Cammack, Cenkos
Just as a point of clarification the £200m cash in, I'm assuming that excludes any leverage on the PFI sales. That's excluding that is it?

. . . .

Leo Quinn, Chief Executive Officer
It's a really interesting question because you can look at cash in in 100 different ways. You know ultimately what we'd like it to be is a net debt improvement. You can say I'd like it to come out of working capital. What I want is £200m of cash efficiency. How you measure it - if I want it in reduction net debt or more surplus cash or better working capital, the fact is I'm driving all the ratios. Not quite sure which one it's going to pop out at but if they all come in it will be three bell fruits. However my minimum expectation is £200m worth of cash efficiency.

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Kevin Cammack, Cenkos
Okay. And just lastly, I may be wrong but there was a sort of hint through the commentary that the US performance - stable performance is probably a bit disappointing, that the recovery in America hasn't really been feeding through into profitability as historically one might have expected. Is that a fair assessment or have I heard that wrong?

. . . .

Leo Quinn, Chief Executive Officer
Yeah I think we're turning over, what is it, £4bn and you're making less than 1% margin that's disappointment in my book. And it's something that needs to sort of improve. And so we're looking at the US in the same way we're looking at the UK with the expectations of how do you get back to that 2% we talked about just a few minutes ago. There is a change of mix within the business but at the end of the day it is a growing market. I think the US is very buoyant, we've just got to learn to actually be rewarded correctly for the value that we deliver.

. . . .

Kevin Cammack, Cenkos
So at the moment your judgement will be that there's an element of self-help to the US as well, it's not just market related?

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Leo Quinn, Chief Executive Officer
Yeah they're in the same plan with the same targets to improve as the UK and the other parts of the company.

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Kevin Cammack, Cenkos
Thank you.

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Mark Howson, Canaccord
Sorry just to finish off on that question. The 1% margin in the US, obviously a £4bn turnover, can you just give us a reminder of what sort of cash/assets are tied up in the bonding and stuff of doing that business in the US.

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Leo Quinn, Chief Executive Officer
Good question. Duncan if you would.

. . . .

Duncan Magrath, Chief Financial Officer
Well 3 billion of revenue is the total US revenue. In terms of there are requirements to have at various points in the year $125m of cash sitting in the US business, there's bonding lines that sit there, behind that is some letters of credit. Those are the - that's basically the credit backing we have for it. The bonding lines are about just under 0.5% utilised at the moment, 50% utilised because there's been a shift in the market away from public to private, so there's much less utilisation of the bonding lines now than there has been.

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Mark Howson, Canaccord
What would that be in terms of …?

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Duncan Magrath, Chief Financial Officer
About £3bn.

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Mark Howson, Canaccord
No the $125m cash.

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Duncan Magrath, Chief Financial Officer
Dollars, yeah.

. . . .

Mark Howson, Canaccord
Dollars, and then the other things you said, what was the total of the other?

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Duncan Magrath, Chief Financial Officer
There's about $350m letters of credit that support the bonding lines.

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Irene Song, Goldman Sachs
I just want to clarify your £200m cash inflow guidance. So £118m of extra provisions have yet to cash out, and I don't know whether £70m that was initially provisioned has been taken out yet, but it sounds like £200m therefore just neutralises the provisions that is to be expected this year onwards. So essentially your target is implying you're getting to a neutral - well cash breakeven point. So just wanted to clarify on that point.

And second is on your extra £118m provisions, there's no real details on whether it's related to certain projects like regional projects or major projects, so if you could just give more colour at that point? Thank you.

. . . .

Leo Quinn, Chief Executive Officer
I'll take the first one and give the second one to Duncan. I think mathematically you're correct. If those provisions do all flow out there is a cash element associated with them which has to be paid from somewhere. As I said we're pulling on many levers for financial flexibility in terms of selling mature assets within the investment portfolio, but also driving the Build to Last £200m cash in. Basically it will be a combination of all of those levers that will determine that we can get to cash flow positive from where we are today.

. . . .

Duncan Magrath, Chief Financial Officer
In terms of the profile, it's very much a continuation of what we talked about through last year in terms of the significant issues sit within regional and Engineering Services and there's a small amount of those provisions relate to major projects but not significant.

. . . .

Alastair Stewart, Westhouse
Three questions. First of all of the accumulated provisions so far how much is that in sort of physical cost to complete and how much is in liquidated damages? And that also includes the non-underlying Engineering Services businesses in the UK. So that's the first question. What I'm trying to get there is have you been fully - have you gone all the way in the worst case scenario in terms of liquidated damages?

Second question is it sounds like you're just beginning the same process in the foreign businesses. You've started in the US. Am I right that you've still really to start in Hong Kong and the Middle East? And have you actually been to the Middle East or Hong Kong yet?

And finally just generally on cash flow. Certainly there are some management measures you've highlighted that you can take, but the general backdrop among every single competitor I've heard from so far, is in terms of working capital, the boot is very much on the other foot with the subcontractors who have been really leaned on heavily during the recession, they're looking at faster payment times. And have you fully taken that into account in your £200m cash inflow target?

. . . .

Leo Quinn, Chief Executive Officer
Do you want to do the first one?

. . . .

Duncan Magrath, Chief Financial Officer
Yeah I'll deal with the first one. I don't have a precise number Alastair but there are liquidated damages within those figures. I would probably guess 20% but I would have to go away and check.

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Alastair Stewart, Westhouse
And does that include the non-underlying Engineering Services?

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Duncan Magrath, Chief Financial Officer
Yeah. Just to be clear of the £118m that we announced today, only £7m of that relates to the non-underlying Engineering Services.

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Leo Quinn, Chief Executive Officer
Just to answer your two questions, visits to Hong Kong, Middle East, other than historical holidays no. But as I said I'm due in the Middle East this Sunday for some business meetings. Hong Kong is - I've met with the joint venture partner. We have people on the Hong Kong board. I think Hong Kong is a surprisingly good business funnily enough

with good prospects for the next five years, so it's not the priority at the moment but we will make time to get there when we've got the priorities that we're currently working on sorted out.

In terms of the cash flow and the backdrop around subcontractors and whatever, I have to say that I have a belief system is that we should pay suppliers on time provided they actually deliver to scope and to schedule. And why is that important? Well first and foremost they have wage bills to meet and I think we should help support their businesses in a professional contract disciplined way. But it's actually getting to understand that that then is to be a strength in terms of our customers paying us on time. You know for 1% or 2% returns and the risk that gets taken on in this industry, to think that we also end up being a bank at the same time is just scandalous. So what we've got to do is we've got to get some discipline into the whole industry around payments, and improve the whole cash cycle. So I'm factoring all those factors into my £200m. And when you say that other companies say they can't do it sounds exactly like all my employees, they tell me it can't be done. But I'm sort of a non-believer when it comes to that. So we'll ultimately see how the test of time serves the cash generated.

I know some of you have got to rush off to some other meetings so don't - if you do need to go don't hesitate.

. . . .

Gregor Kuglitsch, UBS
One simple question. If you can give us - there's obviously a lot of moving parts in the debt and the yearend numbers so it's a bit misleading anyways, can you maybe give us a sense where you see the business underlying average net debt or cash, whatever the number is? Because obviously there's been disposals and things like that.

. . . .

Duncan Magrath, Chief Financial Officer
That's really tricky on whether that sits with me or Leo.

. . . .

Gregor Kuglitsch, UBS
That's why I'm asking.

. . . .

Leo Quinn, Chief Executive Officer
Oh you have it.

. . . .

Duncan Magrath, Chief Financial Officer
Because it's future.

. . . .

Gregor Kuglitsch, UBS
And in that respect also maybe some steer on the interest costs which actually seem to have come in a bit better than expected. If we can get a sense where you see that.

. . . .

Duncan Magrath, Chief Financial Officer
Well that's definitely historic, that's definitely mine. Just in relation to the two points, in terms of the interest we did come in slightly better. Nothing terribly dramatic in relation to that. There is within our Investments business, there was a one off benefit of about £4m in relation to moving from a cash basis to an accruals basis on a particular project where we'd taken a previous approach. But other than there's nothing particularly significant within there.

I mean going forwards, I'll just reemphasise I guess the points we've made. I think the sort of £188m, it's the simple way of looking at it, we'll see that as an unwind at some point probably going forwards over the next 12, 18 months. We obviously started the year with £219m of net cash; you know that the yearend position is normally a good position to be in. There's a fairly heavy investment, you see from the graph, a fairly heavy investments programme in the year but there are sales offsetting it so I think - and there was the Build to Last programme which we're targeting to come in. So I think you know we will be and Leo will be driving to ensure we stay around the net zero positive cash position.

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Gregor Kuglitsch, UBS
On which basis because the year end is obviously -

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Duncan Magrath, Chief Financial Officer
Without giving you specific guidance which we're not going to do and I think Leo wants to spend some more time looking at it, but it's of that ilk rather than anything dramatically different.

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Marcin Wojtal, Bank of America Merrill Lynch
Two questions. One what is your review on the culture of the organisation in the US, the quality of divisional management and their focus on cash generation relative to the UK?

And my second question, you are targeting £100m of cost savings by reducing back office costs, overhead costs. Can you remind us - I mean what is the total back office cost in the organisation so that we can understand what percentage of that are you taking out?

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Leo Quinn, Chief Executive Officer
£500m is the answer to that one.

On your first one the US I think is actually in general a very high quality organisation. So I think we start from a good place. And in terms of cash it's very interesting, when I went over there at the beginning of February and rolled out what is our Build to Last plan with the top 100 management it almost that it had been the time that had been forgotten. They said oh we used to be really good at cash, and the fact that we can do an awful lot better. So I think there's substantial opportunity in the US to do well. Plus the fact that it is an integral part of their incentive plan and they do seem to be well motivated by incentive plans.

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Stephen Rawlinson, Whitman Howard
Bit of a tame one actually for a last question so forgive me on that score, and a bit of an anorak one, on the pension obviously there's been a considerable improvement if you like to the shareholders' funds and they're important, but could you just give us a clue as to whether you'd expect that to unwind over the next year or two and go back to the previous deficit position you were in, or is that now continuing the benefit of the hedging strategy?

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Duncan Magrath, Chief Financial Officer
Yeah I mean I think there clearly is a benefit in having that hedging position in place. I guess it depends what happens to interest rates as to whether it unwinds. I mean it will stay there with current interest rates, but I think the important thing is increasingly effectively the asset portfolio has matched the liabilities and ultimately that's where pension funds want to get to. And I guess we're in a reasonable space but accounting, I've said it before, the accounting number will vary quite significantly to the real issue and the most important issue is the cash and we've still got the deficit payments that we'll make over the next few years.

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Leo Quinn, Chief Executive Officer
Great. No more questions, I'll let you all go. Thank you for taking the time.

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END

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