Balfour Beatty plc
2011 full-year results presentation, 8 March 2012
Q&A transcript

Howard Seymour, Numis Securities
I'll try not to shout into the microphone. Couple of questions if I may. Firstly in the context of the guidance on average cash in the year, as you said probably about the same level as last year. The analyses you gave were very helpful but as you mentioned there's moving parts in that. Just wondered what you would see as the key moving parts in the current year. I mean one specific question is - are the one off costs that you allude to on the cost reduction for example, likely to be in the current year? Some of the things like pensions and obviously there are the disposals coming in. What will be the key moving parts of the …?

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Duncan Magrath, Chief Financial Officer
I think when I referred to average cash I said excluding one offs so obviously in terms of things like if we did acquisitions or disposals, that's excluded from that. Also excluded from that is if we go through in terms of the things we're targeting, that will be in addition to that. so the underlying movements in working capital I would expect a slow trend on that Professional Services through to 5%, I don't think we'll get all the way to 5% during 2012 but we'll go along that path. As I said I think Support Services, I highlighted probably in the first half there'll be a bit of an outflow as there's more contract start-ups. And then the 1 to 2% that I see on Construction is over the cycle, and again that might be partly '12, partly '13, but it does depend again on the mix of business. So I think that's probably answered your question hopefully.

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Howard Seymour, Numis Securities
On a longer term basis clearly what you are saying is, you know, Professional Services gets back to where it is. Is the assumption we should make that sort of going forward with Professional Services doing that, the average cash, net cash in the business, will be at this sort of low level? There is a macro factor in there as well but relative to the historic norm that you've seen?

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Duncan Magrath, Chief Financial Officer
Yeah I guess what I was trying to illustrate today is that we've had a structure of a balance sheet based on the mix of the business as was. I think if we have a change in the mix of business going forwards then we can run with a different balance in those mechanisms. And frankly if we have less negative working capital then it is possible to run with a lower cash balance. As I say you can't be precise about this but the reason we've run over the last few years with a large cash balance and the facilities we have available is absolutely because of the negative working capital that sits in Construction that will flow out during a cycle. So if the mix changes going forwards then the sort of level of cash that we'd be comfortable running with could change depending on how that mix changes.

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Ian Tyler, Chief Executive
But there is a very clear point there which I think is what you're talking about there, which is as we see both the Professional Services element of our business grow and as it returns to a natural level for the year for the industry, and around about 5% is what we would expect the industry to be operating at, that will become a core part of our asset base and our funding structure will have to reflect that, absolutely correct.

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Andy Brown, Panmure Gordon
Two questions please. Just in terms of the PPP disposals - PFI disposals, doubling in the current year, is that resetting the base because originally it was 20 a year, or do you see one off opportunities for the current year and then we're back to as we were? That's the first question.

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Ian Tyler, Chief Executive
Yeah I think it's fair to say that as we look forward, it is a good question, we will see a continued higher level of PPP disposals. The figure for 2012 is driven by the specific assets which clearly the market at the present time is right for selling into. And there are two or three quite sizeable assets there which will generate the returns or rather the gain that we're talking about there. Looking forward to 2013 clearly we have to look specifically at where the appetite is for the mature assets at that time but I would certainly expect us to see the level of gain in 2013 significantly higher than 2011, whether it will be at 40, whether it will be higher or lower than that I think is down to one or two specifics that we haven't yet got round to. But certainly it will be at a higher level. Has that answered the question?

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Andy Brown, Panmure Gordon
Yeah. No that's clear thank you. And the second one, I think in your statement you talked about lower bid costs reflecting sort of less complex bids. I'm guessing that's just a one off because of the macro environment that we're in and we should expect bid costs to rise again as conditions get better?

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Duncan Magrath, Chief Financial Officer
Absolutely. I think I highlighted that I expect the bid costs to rise back to a previous level in the current year yeah. I mean things like as the mix of projects changes the costs that you incur on those bids can change, you can have very expensive bid costs on complex hospitals, you can have less bid costs on different types of assets. So looking forwards in the pipeline that we're bidding we expect the costs to be slightly - they were lower in '11, they will be slightly higher in '12.

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Ian Tyler, Chief Executive
Just to take that one stage further of course there's a geographical mix in that and certainly as we start to see the opportunities grow into the major infrastructure projects in the US that would increase bid cost. In terms of the UK of course a lot of that we don't know at the present time. It will depend very much what comes out of the government's current consultation on the future of PPP. Now that isn't going to affect us in 2012, but as we look beyond that it will be quite interesting as to what structure of bid costs come out of that review.

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Mark Howson, Oriel Securities
Three questions, just clearing up a bit. Just on the working capital. You appear to be implying sort of working capital outflow in '12 of 100 to £150m which you said was pre exceptional one off costs. Can you put a figure on sort of when that £50m, the costs of that £50m, will actually be done in terms of the cash flow?

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Duncan Magrath, Chief Financial Officer
Yeah I mean I think at the moment the plans are not finalised so to actually then specify the timing of cash flows is going to be difficult. I mean assuming we go ahead I would imagine there would be some cash impact in 2012, whether it's half I honestly couldn't say at the moment.

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Mark Howson, Oriel Securities
More '13 presumably?

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Duncan Magrath, Chief Financial Officer
Yeah.

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Ian Tyler, Chief Executive
Bear in mind not all of those costs will be cash costs; there will be other things as well. And there will be, I mean clearly we're aiming for that cost reduction programme to deliver value over three years, the majority of it as we move into 2013. So if we get the bulk of the benefit of that, the one off benefit coming through in 2013. And therefore logically a part of that, a significant part of those costs, will be a 2012 cash outflow. But as Duncan says we haven't got the detailed plans in place yet.

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Mark Howson, Oriel Securities
Presumably the £50m sort of extra cost savings, presumably that's gross, that's not sort of a net figure, your customers are going to want some of that?

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Ian Tyler, Chief Executive
Yes. I come back to my point on giving you a statement of intent there. My intention on that is that certainly in the short term that will benefit our bottom line by that figure. We would also look to drive other things around that which essentially will pass directly back to customers. It's difficult to be precise about that and as always it's difficult to know what would have happened had you not done it. But in my mind that's the level that I want to see coming through to the bottom line.

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Mark Howson, Oriel Securities
Just finally if I may. Just on PFI disposals, can you give us a feel for what the net rate of disinvestment from the portfolio will be because you're putting in about £50m or so a year going into it in investment, can you just give us a feel for what the net sort of disinvestment will be?

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Duncan Magrath, Chief Financial Officer
Yeah I mean we've said very much that the plan is obviously to make the Investments business self-sufficient from an investment perspective. So the investment into the fund will definitely be exceeded by the disposals going forward. So you can see probably a net cash outflow from the investment portfolio. As Ian said it does depend on the assets that are being sold in any one year as to precisely what that number would be.

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Mark Howson, Oriel Securities
What roughly sort of 50, 70m a year sort of range?

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Duncan Magrath, Chief Financial Officer
It will be round about that ballpark.

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Ian Tyler, Chief Executive
It will move around a little bit but logically it will be of the same order of magnitude of that which we're putting it. That's the nature of it being self-sufficient obviously.

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Joe Brent, Liberum Capital
Good morning. Three questions if I may. On the PPP disposals can you give us a suggestion of what profits you're losing from those businesses?

Secondly, following up from Andy's question, could you give us the actual numbers for bid costs, '11 versus '12?

And thirdly on the £50m of savings, would 10, 30, 10 be a sensible phasing of how those fall over the next three years?

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Ian Tyler, Chief Executive
Well after the first one, yes keeps it very simple, those are exactly the numbers that I'd have in my mind. But again I do make the point that that's absent the detailed plans. But yes that's a pretty sensible view.

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Duncan Magrath, Chief Financial Officer
Yes I think just to pick up on going forwards in terms of investments; I mean we delivered around well £71m of pre-tax profit in 2011. And we will see again effectively from the £20m of increased disposal gains going forwards we will see as you say, as you point out, effectively the reduction in profits from the disposal, the profit not made from those concessions and that's somewhere of the order of, probably if you accumulate it, it's around 7 or £8m. And then we'll see the bid costs, difficult to be precise but probably go back to somewhere round about the £34m that we saw in 2011. So overall the Investments business is going to move forwards but by less than that £20m.

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Stephen Rawlinson, Whitman Howard
Sorry I don't want to flog this cost of saving issue to death too much but just one or two questions still arise. When you said 10, 30, 10, does that actually - there's the 15 run rate to the back end of 2011 as well, so there's a 25 in 2012 I would guess from that number, is that correct?

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Ian Tyler, Chief Executive
That is absolutely correct sir but in the sense that that's already embedded in all of our plans and thoughts to the business. That's there, that programme is in place. The 50 that I'm referring to is taking that further, so incremental to that.

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Stephen Rawlinson, Whitman Howard
And can I ask two further questions then? Does the cost saving include any external revenues that you might get from savings that arise from the - sorry let me express it differently. You are going to be selling services out of the shared service centre in Newcastle but that also seems to be part of the cost savings. Do we assume therefore that actually there will be incremental revenue arising as well from that, you're selling it externally? Or is that part of the cost saving?

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Ian Tyler, Chief Executive
That's a very good question. I mean the £50m is the cost that we're saving and it comes out of overhead and, at the end of the day, overhead and procurement. It is a side effect of that that we've created a very effective capability which actually sits alongside our Support Services business, and increasingly there are opportunities to use that to sell into the external market. We have to see how that goes and we have to ensure that that's consistent with the overall strategy and the overall need for the resources of our Support Services business. But that essentially would be incremental to those cost reductions.

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Stephen Rawlinson, Whitman Howard
And just one final one on this cost savings issue. All of this seems to be UK activity which is sort of 50%. Is there something else happening overseas that could add to this in future years perhaps?

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Ian Tyler, Chief Executive
No the ideas and the plans that we're looking at are not purely UK, they embrace the entire group.

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Andrew Gibb, Investec
Just a couple for Duncan just in terms of numbers, and maybe one for you Ian on the strategy. Just going back to the £18m benefit you've had from the reduction in the pension costs. Could you just break down and you know qualify/quantify the moving parts of that reduction? And I know it's a volatile number but that £3m in terms of looking forwards, in terms of forecasting.

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Duncan Magrath, Chief Financial Officer
I mean to break down the movement of 18 I'll probably - if I can have a discussion afterwards. And in terms of moving forwards I think in terms of what we have, obviously we've seen the deficit come down, the reality is going forwards I think with the change in discount rates they've come down as well which obviously increased the liabilities. The bigger impact is the reduction in the estimated return on assets. So the net effect of that I think is going forwards the pension interest cost for 2012 will be similar to 2011.

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Andrew Gibb, Investec
Just on the provisions, I note provisions have dropped this year despite kind of revenues going up which is slightly out of kilter to what we've seen in the past. I mean is there, in terms of the underlying profit, any provision release in there and if so if you could quantify?

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Duncan Magrath, Chief Financial Officer
No I mean it's - the provisions are it's a fairly sizeable number, it's across thousands of contracts across the world, they will vary up and down, they're probably generally more related to the Construction business than they are to the other segments so I don't think you can just take an overall revenue number and then apply a multiple to it.

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Ian Tyler, Chief Executive
There is absolutely no difference in approach that we would - I mean it's essentially a fairly systemised process. There was no difference in approach that we would take on those one year to another.

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Andrew Gibb, Investec
And Ian just on acquisitions. Obviously that came out in the strategy we had back in '10. And clearly you know you've got your new facilities, you've still got net cash there. Could you just talk a bit about you know your thoughts going forwards on acquisitions and maybe, obviously you can't be too specific but areas you may be looking at?

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Ian Tyler, Chief Executive
Yes. This could take some time, I'll have to try and give you a very brief answer to that and I'm happy to pick that up with anybody at a later stage. But essentially the major pieces of the group are in place. The acquisition of PB in particular gives us the major pieces that we need to take the business forward. We have to - just following the strategy or the discussions that we've been talking about now for a couple of years and the point that I was making just now, the two things that we need to do to really drive that forward, firstly is to really drive the total capability of the group through the vertical markets that I've spoken about. If I look at those vertical markets there are areas in various bits around that where there is capability that we can beneficially add to create real value. Some of that, maybe a significant amount of that, is organic. But in one or two areas there are potential acquisitions that will give us the real capability and the real totality of capability. So that's one area that we would look at.

The second is, and it's the flip side of the same coin, if we're looking at driving very strong global vertical market businesses we will need to have the presence in new geographies. Market entry strategy in new geographies is something that many books have been written about and it's complex difficult and it will be different from place to place. There are certain areas of the world, and again without getting into huge detail here, in which a market entry strategy through selected acquisition and then growing from there, perhaps in the way that we did with Halsall in Canada, will probably be the way forward. In other markets it will be a bit like the relationship with Tata in India, and it will be a very long burn that, but something that will grow out over time.

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Andrew Gibb, Investec
That's great thanks.

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Gregor Kuglitsch, UBS
I've got a couple of questions. The first one is just on the cost savings. Obviously you've announced another £50m incrementally so that sort of totals it up to 80. You've also told us that you think the margins in Construction ultimately can recover the 3%. Is that really part of the same equation because obviously you're coming out with cost savings but on the other side you've got margin pressure sort of reducing it? So is it net, net, we end up actually where we started this morning i.e. the 3.5 to 4%?

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Ian Tyler, Chief Executive
I think the comments actually weren't quite that precise to be honest. I will give you my view on that. The return of margins to 3% and maybe slightly more than 3% is the natural cyclical process. In principle therefore the benefits of the cost reduction programme of the sorts that we're talking about here, efficiency programme, is incremental to that. Of course in the longer term and we're talking about you know as you go three, four, five, ten years down the line we're not the only people driving efficiency and the process of competition will lead margins in the market to be what industry levels are. Our approach to that and our strategy will be, and actually as we talk about the focus on particularly those single service capability businesses will be to drive efficiency at the top end of the market. So we'll be looking for that to drive margins ahead of that natural market position of, you know, somewhere around about 3%. The efficiency processes we're talking about today and the plans we've got today are a means of achieving that. So whilst we're talking returning to 3% we will be targeting to deliver more than 3% out of our Construction businesses, but of course there's a whole market dynamic in that which will lead to the outcome.

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Gregor Kuglitsch, UBS
Thank you. Another question is just on your guidance. You're obviously talking about making progress and you've obviously also announced an incremental £20m of sort of asset gains, if you want. If you wouldn't have had those on an underlying basis would you still be looking for progress or would you actually be more sort of a flattish outcome?

And the second question is just I mean I didn't see anywhere in the release any mention, maybe there's a reason for that, on the infrastructure fund, I think that was something that you were launching I think or talking about two years ago. So I just wanted to get an update in terms of what's happening there.

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Ian Tyler, Chief Executive
Okay well on the infrastructure fund, the only thing I can say on that is you're absolutely right and it hasn't gone away. It has the inevitable complexities but we're still working on it and we'll come back to that in due course.

On the question of progress, the comment on progress is specifically around the general direction of travel of the business, it doesn't specifically relate to one financial metric in 2012. And indeed what I'm not going to do and what I obviously can't do here is make any sort of profit forecast for 2012. The only thing I would say is the, and I'll come back to the words that I've used and indeed Duncan has used, that there are growth in a number of our businesses, there's some strong headwinds in some of our businesses, particularly our Construction businesses, and they will carry on in 2012. And the cost reduction measures which will in part the smaller element that will come through from what we're already doing, the larger element from what we're about to do will come through later in the process. But those elements and the gain from PFI disposals will underpin the profits for 2013 against those headwinds.

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Gregor Kuglitsch, UBS
Maybe one final one on the UK because obviously you've got headwinds as you said in the short term. I think there's obviously a big national infrastructure plan which is sort of out there. Do you think that's actually realistic or is it really a bit more of politics?

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Ian Tyler, Chief Executive
Blimey that's an interesting one. I'm just kicked off being on the Infrastructure UK's Advisory Council so I've got to be reasonably careful what I say there. There is - I mean I think the national infrastructure plan there's an element of that, particularly the major 40 projects, where there is absolute intent from government to make them happen. There's nothing new in that, the new thing is that they're going to try and ensure that they don't stop happening. And of course we have to be very supportive of that.

As you get into the other 500 projects in the programme, I mean clearly there's a whole variety of things there. Are they deliverable? Yes they are. Are they fundable? Well of course they are theoretically fundable within the government's plans. And indeed they are theoretically fundable largely in terms of private sector investment, but a lot of that has yet to be worked through and there's no shortage of ideas as to how these projects are funded and there is clear intent by government to make them happen. But there is an awful lot of things that have got to happen in order to make that occur and I suppose the balance of probability is the government, but above all the private sector, is going to have to pedal very hard to make all of those things happen.

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Gregor Kuglitsch, UBS
Thank you.

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John Fraser-Andrews, HSBC
Could you flesh out please the headwinds you see in the US by end markets and whether there are any growth spots or is it generally a gloomy couple of years that lies ahead?

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Ian Tyler, Chief Executive
Again this could turn into a long answer if I'm not very careful. I think, two or three things very quickly. The things like the transportation and the power sector in the US are stable. I don't think we're going to see those go backwards. There is a huge amount of froth around federal funding, all of which we've talked about before, but all the indications are is that that remains stable and indeed we're not looking for massive growth in that market but we're certainly not looking for it to go backwards.

The construction markets, the building markets in particular, have shrunk significantly over the last couple of years. That has had an impact on volume although we've done very well in maintaining activity in niche areas. It has definitely had an impact on margin in the market. And our expectation is that we will see no worsening of that in 2012, and this one I'm kind of looking into my crystal ball here, we will not see any worsening of that. We may even see the very start of that picking back up. It will be geography by geography. The outlook in the northwest where we've acquired HSW looks a lot rosier than it does for example in Florida. And I think those will be the start of that recovery. But bear in mind the long lead time in this process, where we start to see activity picking up it will be some time before that flows into margin and in turn, in a sense before that then is recognised as profit.

So I think we can look for the next couple of years in the underlying market in the US being probably not worsening as an underlying market but probably not picking up significantly either. Of course we have to bear in mind that our profit recognition is delayed. So we will still be seeing our profitability in 2012 reduce because of the completion of things that were taken into our order book back two or three years ago, that's inevitable. But the underlying recovery is probably a couple of years off, or certainly it's not going to happen in 2012.

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David Phillips, Citigroup
Can I ask about the vertical strategy that you've outlined in a bit of detail there and specifically thinking about mining where you don't historically have - you haven't done as much as you have in the likes of power? Is it going to be preferable to do that with a directly owned delivery arm or is partnering an equally valid way of delivering such an activity?

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Ian Tyler, Chief Executive
Well again there's an awful lot in that question as well. The mining sector is one where I think we have to look at the vertical market there. The engineering design area, we're already part of that. The area that we need to be playing in is not so much the direct delivery, our direct delivery capabilities in Mozambique are probably relatively limited, but I talked about EPCM, EPC and EPCM. It isn't so much the ability to have the blue collar labour to deliver on the ground, it's the ability to manage, to organise the delivery of assets. And that's the bit, and I've talked about this with the strategy for professional services and PB before, it's taking that capability in PB, augmenting it with our Balfour Beatty's traditional project management delivery capabilities, and creating an EPC and EPCM capability in those markets. That's where the real value will be created. Not actually pouring concrete in the jungle somewhere.

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David Phillips, Citigroup
Yeah. Hopefully this one will be a bit easier to answer. A couple of years ago, I think it was like summer '09, you were talking about the PFI portfolio and identified I think £75m to £100m of relatively easy asset uplift winds from just maturity and better sort of synergies from managing the portfolio. You know it looks like you've achieved that now. Would you go on the record for the next couple of years for the existing portfolio, just from what you can expect from a phase maturing of the portfolio?

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Ian Tyler, Chief Executive
Well I think if you look at, and Duncan might want to pick that up, but I think in a sense you can see the pattern of that emerging from the chart that Duncan put up where we looked at the bits - you saw the benefit which is around about £70m from the unwind of the discount rate, the progressive growth in value of the investment. If you take that alongside essentially the maintenance of value in that business, we can expect to see that as that's grown; we can expect to see that continue to grow. And indeed there's a sort of a theoretical calculation you can do but of course it will also depend upon the rate of disposal of the value as well, but it should increase from there.

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Duncan Magrath, Chief Financial Officer
Yeah and frankly it's actually that increase in value through as Ian said the £69m we saw in the current year - and the unwind of discount, the improving in the operational gains that obviously allows us to increase the pace of the disposal programme.

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Ian Tyler, Chief Executive
I think we need to move on at some point in case we have any questions from the web. Do we have any Basak?

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Basak Kotler, Head of Investor Relations
The questions from the web have actually just been answered in the room.

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Ian Tyler, Chief Executive
Okay all right.

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Manu Rimpela, Deutsche Bank
Just one question. Just on the long term strategy started more than a year ago you announced the long term targets in terms of margins. So are you still comfortable with those with the potential decline in construction margins? Are you talking about some margin recovery being maybe delayed? So just your thoughts regarding them.

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Ian Tyler, Chief Executive
The answer to that is yes. Bear in mind, and I just go back to the point, the movement in margins in Construction is cyclical. I mean we will see them above the trend line and we'll see them below the trend line. Taking that natural cyclicality into account the answer to your question is yes absolutely.

Right we'll have a couple more questions.

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Alastair Stewart, Collins Stewart
I have three questions if I could please. You suggested the Construction margins are going to go down this year to just north of 2% I think. Would UK construction be above or below that line and does it split between Mansell say in lower margins than what other the UK as a whole is on and the infrastructure being on a higher margin? That's the first one.

In terms of new PPP work, has it gone completely dead just now pending the infrastructure review? And very briefly what's your best guess on the shape son of PFI might have?

And finally if it's not pushing it too much, you went through your verticals. One area that seemed to be sticking out bearing in mind that you had mining, have you any ambitions in oil?

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Ian Tyler, Chief Executive
Those are all very good questions, two of which I can remember and one of which I can't so you may have to help me.

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Alastair Stewart, Collins Stewart
PPP, oil and UK construction.

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Ian Tyler, Chief Executive
The question on oil and gas, again as something that we've looked at many times, I mean first of all you have to look at the if you were to get into that market cyclicality clearly is a major issue. But the one thing we have concluded with the oil and gas market and I think as we look around the world it is definitely playing out in that way, to be a player and to be a really successful player in that market you have to be a major player, you have to be a market leader. Being a market leader in that is a very difficult thing to achieve and it's a much more sort of polarised market than many of the areas in which we play.

The core skills of the group certainly could naturally play into those territories but I suspect that in terms of everything we do there are better uses of our capital and our resources than oil and gas.

As to margins across the patch, Duncan do you want to step in here?

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Duncan Magrath, Chief Financial Officer
I mean I think very, very simply we did talk about the US margins being 1 to 1.5% and mathematically obviously if we're coming in around 2% then the UK will be higher than that.

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Alastair Stewart, Collins Stewart
And within that would the sort of more regional construction be lower than whatever that is and vice versa the infrastructure would be higher?

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Duncan Magrath, Chief Financial Officer
Yeah I think at some point you come down to the scale of the project, the complexity and the risk you're taking and the margins you're taking on it. So I don't think the margins vary dramatically across the UK, across the individual sectors something like rail is traditionally where we have more capital tied up has traditionally attracted a higher margin because of the capital tied up in it. But the regional businesses as I said, the building business has performed very well in 2011 despite the markets. The civil business has been slightly more difficult.

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Ian Tyler, Chief Executive
But it's not an absolute statement but by degree everything you say there is correct and is exactly as you would expect it to be.

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Alastair Stewart, Collins Stewart
And finally on PPP?

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Ian Tyler, Chief Executive
There is still a fair amount of activity in the PPP arena. It will certainly change and I suspect we'll go through a bit of a hiatus, and your comment there is about UK I assume in particular?

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Alastair Stewart, Collins Stewart
Yeah.

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Ian Tyler, Chief Executive
As we go through the thinking about what follows on from it. But no it hasn't dried up altogether, there's still a lot of activity out there. The nature of the projects are certainly different and maybe the size of some of the projects is different, again if you look at where we've been successful this year they are different in nature and scale. But no there are still some sizeable opportunities out there including in things like healthcare and the like. So no it hasn't gone away.

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Alastair Stewart, Collins Stewart
And son of PFI?

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Ian Tyler, Chief Executive
I have no more insight on that than anybody else does. I have a lot of thoughts, a lot of ideas, some of which I've shared with government but there is, on one level there is an absolute sense that this is something government needs. But equally there is a sense that somehow it has to be different and different in a political sense to that which has come before. The logic behind that may not be particularly robust but that is nonetheless where we're going to end up.

Now I'm just acutely aware of time. I'm going to take one more question.

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Mark Howson, Oriel Securities
We got the government response out today for the McNulty review on costs in rail, saying it's 30% too expensive. Is that really more of an issue for the train operating companies or are we going to see another CP review by Network Rail to change things?

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Ian Tyler, Chief Executive

I think it's a challenge for all of us. It's also an opportunity for all of us and I mean that genuinely. I think it is going to be much more about some quite radical thinking about the structuring of the rail industry, rather than simply, you know, somehow wave our arms around and costs are going to drop out. But you know if you're going to take that level of cost out now you're going to have to do something radically different. And if you look in the McNulty report the thinking that he brings to that is quite incisive and certainly I think quite valuable in the future of the industry.

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Mark Howson, Oriel Securities

Secondly just on emerging markets; we haven't really spoken about it. Have you got a sort of target percentage of group profits or revenues in five years' time that you'd like to see coming from emerging markets?

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Ian Tyler, Chief Executive

Well I've got some thoughts. I wouldn't put them down as targets because we have to see what the appropriate market entry strategy is and actually where we can play in these markets. I make the point that these are things that we have to do very carefully and what I don't want to do is to predict the outcome of something that we don't know at the present time. But we certainly have an intent.

I've been given the evil eye from Basak here that I've missed somebody over here. Kevin sorry I apologise.

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Kevin Cammack, Cenkos

Just one, when you were running through the emerging markets that you're highlighting and the activity movement, obviously you go in sort of front end but then you were sort of saying at some point you may be involved in whole cycle and construction. Can you just literally spend you know a minute on telling us what your risk management strategies are in areas you know further afield, and would this involve a seriously bigger commitment to bonding facilities at the gross level if you're involved in this? In other words does the capacity of the balance sheet you have today in bonding terms meet any requirements that you may need if you risk up in some of these areas?

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Ian Tyler, Chief Executive

Again potentially a lot in that question. There's lots of issues around risk management. The key issue around risk in emerging markets is to be absolutely clear in the areas in which we will participate and the areas we will not participate. The thing about markets like India and Brazil, which are the two I've mentioned, is they are very, very large markets indeed. We can't realistically be everywhere. We have the ability to choose where we play. Where we have strong vertical market strength we are naturally likely to be successful. In the main those type of - when we're playing at that level we have the ability to control our destiny, much more than if we're generally involved in the construction markets where risks are higher both physically, both morally in the sort of the corruption risk and also in terms of the financial risk. So it's a question of playing very, very specifically on the things that we can do well and not taking on risk which we can't, as a matter of course, manage. Now that's a very glib answer to a very important question.

As to bonding, in the main the emerging markets that we're looking at there, there are some elements of bonding requirements in those markets, but it isn't bonding in the sense of the US market which is what tends to require most thought about the balance sheet. It would be no different to the extension of the sort of work we would do elsewhere in the world. So I don't see that as the major constraint on our ability to grow.

Right is there anything else that's absolutely burning otherwise we've significantly overshot time here for which I hold myself responsible. Anything else? If not thank you very much indeed and happy to take any other questions one to one. Thank you.

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