Questions and answers

Ian Tyler, Chief Executive
Right, well I'm going to suggest that my colleagues join me on the stage and we'll kick off with a Q&A session. I think as per normal at these things if you could just state your name, rank and serial number before you kick off it may help with identification. Should we just start off over there, thank you?

Will Morgan, Goldman Sachs
I have a few questions please. The first one is could you possibly just give a sense of your emerging market strategy in terms of how much you see as being related to acquisition, presumably a lot will involve acquisition of some sort or another, could you maybe just give us a sense of how much you think it might cost in terms of outlay over the coming years to give us some sense?

Secondly, could you give us an idea of what your criteria are for acquisition financially speaking, whether it be return on capital or otherwise?

Finally, if you could just give a sense of how competitive you see the environment in some of the key end markets you're targeting for acquisition at the moment that would be very helpful? Thank you.

Ian Tyler, Chief Executive
Right, it is as you would expect difficult to be absolutely definitive on that. I can certainly say where I think acquisition will or will not be relevant to our strategy. Opportunities may arise or these circumstances may change, but at the current time I would believe that if we are going to be successful in an acquisition in Brazil - sorry successful in developing a market in Brazil, we will have to do so in part through acquisition. And I say that because Brazil is an intensely local and intensely national market. And again if you just look at the structure of what happens in Brazil it's very unlikely that we would grow a business organically in that market.

There are a lot of issues around making an acquisition in Brazil, but if we did it would have to be at a level which gave us a proper platform from which to subsequently grow. Conversely I see no particular benefit from the market as it's currently structured from making an acquisition for example in India, and India is a much more fragmented market, very difficult to see what you would gain from that process. It'll be - in a sense it's a shame because if we could do so in part by acquisition we would develop in the market somewhat quicker. But at the current time I think it's unlikely that that would be the case.

The issue in Australia and in Canada, we've already made an acquisition in Canada, we acquired Halsall now over two years ago and that's proved to be a very successful foothold and again a good model for the sort of things we would look to do for the future.

I think we will end up in both those markets with a combination of both acquisition and organic growth. You did make a point there particularly - your comment around acquisition I presume was focused purely on emerging market, there may be other reasons to make acquisition to develop capability and again I'd emphasise things like the water sector being very important to us in terms of developing and building out our capability in those markets.

But I would make the point around acquisition that in one or two cases those acquisitions need to be big enough, but they are, by their very nature they fall under the broad heading of bolt on acquisition rather than a big strategic leap forward.

Now what else didn't I answer on that?

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Duncan Magrath, Chief Financial Officer
Criteria for acquisition I mean I think in terms of - perhaps just picking up a point that Ian was making earlier, I mean I think the other thing you should just bear in mind is generally our acquisitions have been where we've worked alongside or know the company particularly well, generally we've not been in markets where we've been competing in acquisition. So to your last point about how the competition is in end markets, generally where we've been successful has been where we've been working alongside a company and eventually taken a stake, or taken them over, normally from a private entity.

In terms of the financial criteria that we'd apply would remain the same, which is we'd look at both from an IRR perspective, from a cash perspective and also look at it from a multiple perspective and see if it looks broadly sensible. But going back to my earlier point given that these will, particularly the bolt on ones are likely to be private companies than that's not necessarily a directly comparable figure.

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Andrew McNaughton, COO and Deputy Chief Executive
Your third question which was about what's the competition like, is that the competition for the target acquisitions, or the competition in the market which they operate in?

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Will Morgan, Goldman Sachs
It was about the target acquisitions, but I guess if you could elaborate on competition in markets that would be useful as well.

Laughter

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Ian Tyler, Chief Executive
That may take some time.

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Andrew McNaughton, COO and Deputy Chief Executive
Yeah, how long have you got? I mean I think one of the advantages with the way we've articulated the strategy is we now have the ability to target in two directions, first of all we've articulated both geographies and verticals, so Ian's articulated the entry strategy to Brazil is likely to be through some form of acquisition. Clearly if we're going to do that of scale then it's going to be something that covers multiple vertical sectors.

We also have the opportunity to build out our capability by taking different acquisitions that are particularly well focused, more focused in vertical markets. So to answer your competition question we actually have more of a field to play at, because we're now looking at it through two lenses rather than just the single lens. It would take a much longer answer to go through each of those verticals and tell you about each geography as to what the competition is like, but happy to have that over a beer if you want.

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Stephen Rawlinson, Whitman Howard
I just wanted to continue that theme a little bit there if you don't mind, in terms of the size and scale of what you might be able to do - given possible balance sheet constraints. I mean other companies have used some of their PFI investments to actually fund the pension fund, obviously your pension fund deficit went down a little bit, but nonetheless it is an issue. So I guess what we're looking at here is how much you're prepared to fund by debt and where else you might get some funding to actually progress the strategy via acquisitions?

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Duncan Magrath, Chief Financial Officer
I mean Ian referred earlier to sticking to our principles around the balance sheet, so in terms of making sure we've got the right balance between the investments portfolio, the working capital and cash we are going to continue to do that. I think in terms of capacity to fund, I think Ian referred to internal cash generation, so clearly we'll continue to generate cash and that will provide access to be able to invest in the bolt on acquisitions we've talked about.

I'm not going to put any number on it, I think it will be a combination of that but we're not going to move away from the balance sheet structure and principles that we laid out earlier.

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Ian Tyler, Chief Executive
I mean again I would make the point there and I said it before, I just that we have - with the structure of the current balance sheet and with the available financing from the existing structure of the business and looking at the overall portfolio of debt structures in our balance sheet we have the capacity to drive this strategy, capital would not be limiting factor. The limiting factor, as always in these things will be the right if we are going to grow through acquisition, the right acquisition being in the right place at the right time.

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Howard Seymour, Numis Securities
A couple if I may, strategic ones, there's obviously been a lot of talk on the verticals, but if you look at the UK and the US and things like the bid pipeline, a lot of the pipeline is still into what I'd refer to is the more social infrastructure side of these things. When you're looking out do you see that you'll continue to maintain those businesses. I'm not looking at the sort of cyclical now, but medium term, you are big players in more social accommodation building type work at the moment. Is it - notably on the US that you sort of grow the infrastructure more is that the …?

Ian Tyler, Chief Executive
Well it's a very good question, the social infrastructure side of our business, particularly the construction side, but not exclusively so, are - I mean they are great businesses, you know they are businesses in which we are market leaders and they've generated a lot of cash and a lot of value over many years. Right here and now they're at the very nasty end of the cyclicality. But over the cycle they are great businesses.

What is clear though is that where we will get differential value for the capital we invest is not into those businesses; they are mature businesses in their own right. It's taking the capital and the cash we throw off and investing them behind a much deeper business in economic infrastructure.

Over time we will obviously look at the shape of the portfolio of the group and there's some obvious questions that every business has to ask when it's directing capital to one part of the Group. But those businesses are great businesses, they're at a cyclical low in one or two cases at the present time, they will recover and there will be a cyclical high as well and they will throw up a lot of cash and that cash will exist for reinvestment elsewhere in the Group.

Howard Seymour, Numis Securities
Okay thank you …

Andrew McNaughton, COO and Deputy Chief Executive
Just to add to that one thing to focus on as well is that whilst our building business joined us in 2007 we must remember where we've applied our capital since then. So if you look at the strategy we've been developing we made the investment into our investments business in the US, we made the investment in PB which gave us that economic infrastructure capability in the US and then Fru-Con in the water. So those are the ones where we've deployed our capital.

But if we look at not only the stability that PB's transportation business has had, but also with the advent of design-build in infrastructure and PPPs coming on in infrastructure that, whilst holding the strength of the core building business the way we're seeing it moving forward in the States is through the US investment in infrastructure. So that's the reason why we've had the strategy that we've had and we'll continue in that direction.

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Howard Seymour, Numis Securities
Thank you. The question is around support services which hasn't been mentioned much, but on the context of lifecycle services and going international, what would be your strategy on that side of things?

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Andrew McNaughton, COO and Deputy Chief Executive
I think the key to that is asset knowledge and knowledge through the lifecycle so what we're taking and I mentioned in the piece that I spoke about particularly some of the areas where customers are outsourcing. So when you look at things like highways maintenance, when you look at other maintenance areas and also asset operations in the power generation market. Those are capabilities that we've built up over time and then we're seeing real pull from customers around the world.

Australia there's some great opportunities right now in the outsourcing market where the public sector is looking to do much more of that. So asset operations through support services that we have and through knowledge in places like Balfour Living Places where we do the local authority support services market, we're taking that knowledge and skills over to places like Australia.

Equally what we're now finding is that that market is opening up in the US. For the first time we're seeing the US now contemplating outsourcing of operations and maintenance. There's some first run projects going on in a couple of states at the moment, but there are about 30 states watching how that procurement goes on. And we've recently submitted bids on those. So that whole market is beginning to open up.

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Ian Tyler, Chief Executive
I mean certainly in infrastructure the services side of the business is an important component of that capability. We haven’t focused on it today because the one differential skill that Balfour Beatty has which is absolutely looked for by our customer whatever point in that value chain you look is the ability to deliver, to take risk on delivery, and that's really what we’ve been focused on. But I would point out the support services element around power, rail, highways, is absolutely critical. Our construction business, sorry our social infrastructure business and our FM business come into the category all the same, the FM business is a fantastic business but there is less vertical alignment through the social infrastructure than there is through economic infrastructure.

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Joe Brent, Liberum Capital
Two questions if I may. Firstly in following up from a previous question I understand that you want to keep the balance sheet in balance and I know cash isn’t a constraining

factor and I don't know what your free cash flow is going to be but in the past you have given us an indication that you'd spend £600m. I suspect that number is a lot lower now. Could you give us a rough sense? I'm thinking sort of £200m of firepower for an acquisition.

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Duncan Magrath, Chief Financial Officer
I think when we spoke in November 2010 I think probably what you're referring to, we talked about the capacity, I think I was at pains to point out we wouldn't necessarily go and spend that money, that was our capacity.

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Ian Tyler, Chief Executive
And that was over a period of years, that wasn't at a point in time.

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Duncan Magrath, Chief Financial Officer
I think to be honest I wouldn't move much away from that. We've actually - since then we have acquired a number of entities since then, so I think the capacity still broadly stays the same over that period.

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Joe Brent, Liberum Capital
And the second question just if I may, on targeting 25% of the business being in growth markets in the medium term, is that to be achieved through acquisitions or is that something you can achieve organically and what's medium term?

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Ian Tyler, Chief Executive
Well the answer is it is a combination of all of those, both acquisitions and organic growth are clearly a means to achieving the same end. What I think is the point I'd make on that, that is not purely a function of acquisition, that's an alignment of the entire group behind that strategy. That's kind of stating the obvious I know.

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Manu Rimpela, Deutsche Bank
Continuing on the medium term targets so on the previous analyst day or investor day you presented us with a slide where you also gave your targets for group margins and construction margins. And they were missing from the current medium term target slide you had there. So can you just give us an update on the other divisions and the group margins as well and are they still valid?

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Ian Tyler, Chief Executive

The one we were focusing on particularly there was on professional services and that remains exactly as before. The construction margin, again if I come back to 2010 what we said in 2010 is that we would expect the margin over the cycle not to move materially from where it had been over the last cycle which was a fraction under 3%. But that is a through cycle margin and of course I absolutely remain of the view that over the course of the cycle we have the capacity across the totality of our construction businesses, the more so as we go down the vertical business structure that we've been talking about here, that we will see margins coming from that component of the business over the course of the cycle being at least at that level and probably higher.

The other element of it is the support services business and we've certainly seen some deferral of margin as we've seen that business grow. But overall we would expect that business to achieve the same level of margins that we said before. It will be changed as the mix changes and particularly as the mix moves towards economic infrastructure perhaps and with less focus on social infrastructure, but we will certainly see the direction there and the outcome there to be the same.

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Andy Brown, Panmure Gordon
Just following on from that really. So how do you then get to your 6 to 7% margin targets? Presumably there's going to be an element of the investment disposals actually included or not?

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Ian Tyler, Chief Executive
Well I think we were very clear on that, the 6 or 7% is the - our margin targets remain exactly as they were before. The 6 or 7% is the margin in professional services which is the main thrust of our strategy.

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Andy Brown, Panmure Gordon
Right okay sorry I misunderstood that. Second question.

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Ian Tyler, Chief Executive
I hope that is clear if anybody has misunderstood that one.

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Andy Brown, Panmure Gordon
That's perhaps me being dim, apologies anyway for that. On the second one just thinking about the emerging market businesses and maybe thinking more in terms of a headcount way of looking at it, clearly you've got 10,000 people, you know 10 - 8,000 people across the UK and US operations. Is it right to think that you need a similar level of headcount in these emerging markets or can you grow these businesses by using your skill sets and transferring the skills remotely?

Andrew McNaughton, COO and Deputy Chief Executive
I think the answer to that is no we don't need the same level of resource to grow those markets. If you think in the UK one of the largest - the business that has probably the largest headcount is our FM business. So you know there certainly wouldn't be an intention to replicate that. Also as we've said we're not about to - it's unlikely that you'll see a replication of the core area where another area where we have a lot of resources is in our regional building and regional civil engineering businesses. We're not about to replicate those in the emerging geographies.

The key area as we've said, what we're going to do is to take on the professional services piece, to grow that and then to expand that into managing delivery. So we will be managing delivery through local supply chains and managing the delivery risk. So you don't need the same level of resource that you need - that we have in the UK.

Mark Howson, Oriel Securities
Three questions if I may. Firstly just being devil's advocate, looking at another company where they had PFI portfolio and pension deficits etc. Interserve, they obviously made a big disposal and transferred assets into a pension scheme. Now if you sort of look at their slide on the balance sheets elements type basis, whether they're balance run, balance posts all of that, they seem to be running on a my best guess is sort of 50 million or so plus negative position versus you sort of happy with a balance approach. Are they running a different business with more services in it they can afford that type of view or are they running a risky process and why didn't you sort of adopt a similar view? The first question.

Ian Tyler, Chief Executive
Well I mean the first difference between ourselves and Interserve I guess is that it is for them to form their view on the structure of their balance sheet but the first point is of course they have a different mix of business to us, number one. Number two, and it's a fundamental part of our business it's not the only factor, but they don't have a US Surety programme which we do and we have a very large US Surety programme which requires us to manage our balance sheet in a particular way.

Again I don't think the views of the US Sureties take is any different from anybody else and I would also make the point that we, and maybe it's the flip side of the same coin, we also operate as a business on much larger projects in the main than Interserve do. And clearly if you are an asset owner looking to someone like us to deliver your infrastructure, us still being around in five years' time is pretty important. The smaller the project the less important that is and therefore the less criteria there is around the financial strength of the company. If you look at most of the major international contractors they all have very strong and relatively liquid balance sheets to offset the negative working capital. We're no exception to that and that's the market we trade in.

Mark Howson, Oriel Securities
Second question is just on sort of cultural changes incentives, really sort of people within the overall chains to go along with the strategy for the verticals. I mean can you just say how you're incentivising staff directly to sort of affect all this?

Ian Tyler, Chief Executive
Well at the moment we are, and this is a 2012 comment, we are running our business along the capability lines, we're running a professional services business, a construction business, and with an element of group buy in our business units are incentivised, our managers sorry are incentivised on the performance of their own business units. We will inevitably change that as we move accountability progressively towards vertical structures. I mean the one thing I would point out in all of that that I think is very important to us as a business is that we will maintain clarity of accountability in the structure. And only when we move accountability will we move the incentive schemes to align with that. So we're not going to move the incentive schemes ahead of moving that accountability.

As I said, we're making good progress in transitioning the business towards those vertical markets, but until we actually move our management structure so that it absolutely aligns with that we won't move the incentive schemes.

Mark Howson, Oriel Securities
Final question from me. Just on I think in the past you've said there's more than a billion pounds worth of projects sort of delayed in the UK and other places where for example producer regulatory action or regulatory delay, you know I think in sort of Eggborough and biomass schemes that we're looking sort of at next door at biomass and stuff. Are post sort of the Energy Bill are these likely to start to move forward now or is it still early days on that?

Ian Tyler, Chief Executive
We have to see. Again we are probably not the right people to ask that question to, the right people are the developers themselves. We're one step removed from the developers. I think the answer is we are seeing some progress but it is slow and certainly if you talk to the developers as we do we see a lot of delay and a lot of uncertainty around that area. I don't know whether you have any particular comment on that.

David Rutherford, Power Director Parsons Brinckerhoff
I think that's exactly right, it's up to the developers to choose to invest as they digest the outcome of the recent energy market reform bill.

I think the response that you gave is absolutely correct. We're in the early stages of seeing the response to the energy market reform activity. There's clearly a large pipeline of projects that are ready to go. They're presently digesting the impact of the EMR and I'd certainly like to think that over the next six months we might see some response to that in a real tangible sense but it's only the investment community that will respond in its own good time.

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Gregor Kuglitsch, UBS
Two questions. The first one is just on the infrastructure side of things because obviously you've emphasised that as a market you want to grow relative to building I suppose which is obviously a big chunk of your business. I thought one thing that sort of was missing from you was the US side. I mean maybe is that particular market that - I know it's big in PB but on the contract and downstream side of things, the civils business is relatively small within the mix so is that a market that you're considering at all to grow? I think one of your charts actually had a very bullish view on sort of transportation and generally infrastructure markets in the US.

And the second question is on sort of PPP, PFI and I think you mentioned you want to grow in Australia and Canada, is that correct? Also from an equity perspective. And a follow up to that is I think quite a lot of the projects, particularly in Australia, have actually not gone that well I think because there is volume risks involved particularly in the highway side. So is that something that you're sort of totally - I mean are you prepared to go into that in the volume risk side of the concession, PPPs, particularly in Australia? I'm just sort of questioning whether that's the right thing to do given the track record of that market.

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Ian Tyler, Chief Executive
Okay well let us take those in turn. The answer to your first question is yes we actually see a lot of opportunity in the infrastructure market in the US. The acquisition of Fru-Con on the water sector gives us the execution delivery alongside a growing professional services capability, albeit one that we would like to see much more substantial than it currently is. We're already progressing the integration of our highways business in Parsons Brinckerhoff with our downstream capability, particularly there, playing essentially sort of somewhat upstream from where we've played at historically, at the project delivery level, at the EPC level. The sort of work that traditionally - work that you would see coming out of things like the Horseshoe Project. There's a lot of opportunity there in the design build space which we are currently getting into.

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Andrew McNaughton, COO and Deputy Chief Executive
I think you've summarised it correctly there. I mean we are already seeing the volume of work that's coming out in the design-build really suits to our model, really pretty much 80% of the projects that are coming out that are above $300m now are being procured as design and build. So the opportunity that that gives us, and as I say we've

sort of laboured Horseshoe a little bit today but the reason for that is because at $800m that is a way that we can step up our business and by combining it together with the design and delivery capability we can see us doing more of those in the future, and beyond that we see PPP programmes coming out. So it is a strong pipeline in the infrastructure area which we are focused on.

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Ian Tyler, Chief Executive
On Australia, as always Australia is never for the fainthearted. Ian do you want to make just a few comments on our thoughts about Australia.

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Ian Rylatt, CEO Balfour Beatty Investments
I think you asked about our investment plans for Australia. I mean clearly we see an opportunity for investments in Australia based off our vertical capability and our Parsons Brinckerhoff capability in Australia. I think we also touched on earlier certainly in some of the breakout sessions, think a similar question was asked, we don't see ourselves immediately getting into the PFI market in Australia. It's already a very mature market and there are some well-established players and we simply wouldn't be able to achieve the return expectations that we would like to see in that market. We have looked at a number of PPP projects in the infrastructure space and we will continue to do that as we look to leverage off Parsons Brinckerhoff's capability.

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Kevin Cammack, Cenkos
Three please but I think the first one you've answered but I just want to be absolutely clear in my mind. When you talk about the shape of the balance sheet as you've described do you still think that is entirely valid for where your medium term objectives of the business are going? I mean critically I'm referring obviously to the emerging market aspect and I have to confess I don't know whether you get any issues about the sort of Surety value that you have in the US if you're in markets like Australia or Brazil or wherever. So I think you've answered the question that there isn't a requirement to particularly change the shape of the balance sheet but I'd be interested if you can just confirm that.

Secondly coming back to the sort of thorny question about the PPP sales. If you're identifying 200 million of directors' value on sales, could I just ask why not do it in 12 months rather than three years particularly when we might be in a real sweet spot for yield compression of UK secondary values for PFI?

And the last question really just relates to the whole thrust of today in a sense has been leveraging - you know using professional services to lever yourself into more downstream construction. As an absolutely broad brush help what's that sort of gearing in your mind? Is it £1 of revenue on PB to give you £3 of revenue in downstream business, or one to two or whatever? Just some idea of what we might actually be thinking about in terms of that growth.

Ian Tyler, Chief Executive
Right okay let me just start off with the first. The first point I think there is clearly a point at which our business model moves onto something different but whilst we have a predominant and significant and demonstrably volatile element of negative working capital in our balance sheet we have to manage our balance sheet prudently. The market as it's moved in the last two to three years demonstrates that absolutely.

Certainly if and when our model moves to a point where we don't have that negative working capital or it's a relatively small proportion of the total group, of course at that point we have to look at balance sheet structure in a rather different way and there's obviously a transition from one point to the other. But right at the moment our construction activities do have a degree of volatility where we continue to believe that that's important and it doesn't matter where we trade, it's equally important in Australia or in the US. The difference in the US is purely that there is a legal requirement to provide a financial instrument to back up what we do which clearly we have to have sufficient access to. But it's essentially the same proposition elsewhere.

It's a position that we have looked at regularly and it's a position that we have to look at. If for example we were to look at acquisition we would have to look at not just the acquisition in its own right but the impact that that in turn had on our balance sheet. So it's something we have to be very competent about. I did say in my initial presentation that it's kind of a helpful rule of thumb; it isn't something which is absolute. But the strength of balance sheet for its own sake and the capacity to deal with volatility is very important.

What was your second point?

Duncan Magrath, Chief Financial Officer
PPP sales, why not all now?

Ian Tyler, Chief Executive
Again I'll come back to Ian's presentation. If you segment the assets that Ian set out now, actually logically quite a lot of that £200m doesn't naturally fit in the category of being sold today for all sorts of reasons, it just comes directly from Ian's slide. It is a balance judgement and I agree with that. My sense at the moment is that balancing up all of the things that you're talking about including upward movements in the yield curve, including on the other hand increased demand from potential secondary investors because of concerns of inflation which may come up. There's all sorts of reasons why they're going in all sorts of different directions.

My belief at the present time is that the right thing for us to do is to maintain a programme of selling these assets at the point, and genuinely at the point that we judge them to be at their maximum value. And there is, if you look at the portfolio there is a natural group of assets to be sold in 2013 and a natural group of assets for all sorts of reasons which would flow into 2014 and then 2015. They move between those sectors of you know plus three years, one to three years, less than one year in that process.

Could we sell them quicker? Yes we could, absolutely we could and it would have an impact on cash, it would have an impact on structure of earnings and stuff like that but the one thing that we would judge at the margin is we wouldn't be optimising value in doing that. So we kind of believe that the right thing to do is to stick to where we are. Is that a fine judgement? Yeah it is, it is but it's a judgement that we've made and I don't see right at the moment there's anything fundamentally different. If we did sell all those assets earlier as I said before, to a large extent if you take the answer to your last question we would retain the liquidity in our balance sheet because we have to.

Duncan Magrath, Chief Financial Officer
Third one was the leverage between professional services and construction.

Ian Tyler, Chief Executive
Well I can give you the obvious point there, if the margins in professional services are double those in construction across the cycle then there's a natural one to two relationship but it's not as simple as that. I'll let my colleagues pick that one up whilst I'm thinking.

Andrew McNaughton, COO and Deputy Chief Executive
I suppose some of the points we've been trying to make here is the entry point through professional services and I think David Rutherford's point was quite interesting in terms of opening up where we go in terms of building the sales and the margin that comes with, particularly when you go into EPC. Being able to put a number on how much he leverage that, it only comes by putting the pieces together, it's quite a difficult one to say that because what you're actually doing is using the professional services and the delivery capability to therefore take on and manage delivery risk.

So you can do it in a revenue scale if you like, so if you take the comparators around the Coolidge project for instance, at 25% over $200m project, in engineering terms instead of being $50m it could have been only $10m of engineering. So you scale up in two dimensions. So it's a difficult one to pin your finger on in terms of what the total leverage would be but what we're doing here is taking scale in terms of building the revenue, managing that risk and driving our downstream margins much closer towards what we see from overall professional services. So you can't leverage one against the other.

Ian Tyler, Chief Executive
There is a slightly complicated and rather woolly answer to that but there is no doubt about it that we create more value through the activities through professional services,

particularly when they're aligned to delivery activity. And you can see that through some of the stuff we've been talking about today, as opposed to entering into a transactional construction contract.

The trick for us, and this is really what the PS+ strategy is all about, is to capture that value, obviously we've got to capture that value for our customer, but in part capturing that value for us. We naturally don't do that in elements of our construction business for the very simple reason that it is transactional, it is commoditised in the large part of our market and what we're trying to do is to move up the value chain in that sector. And in that sense the answer to your question will be - as we execute the strategy will be just how much of that value we can capture and internalise within the company. It's not much of an answer to the question because I'm not quite sure of the metrics that you can use but undoubtedly a pound of revenue in professional services is worth a great deal more than a pound of revenue in construction.

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Kevin Cammack, Cenkos
Theoretically then in where the EPC aspects of it may take you, to pick up the comment you made would it broadly speaking be a one to two ratio to give you the same profit?

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Ian Tyler, Chief Executive
Well in terms of revenue at a very mathematical level it would be but I think we would also be driving the natural direction of the business at that point would be driving a much higher quality of business, a much higher quality of repetition of business and therefore the ability to get closer and closer to the customer so it becomes …

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Kevin Cammack, Cenkos
Multiplier becomes greater as you - yeah.

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Andrew McNaughton, COO and Deputy Chief Executive
Yeah much greater.

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Ian Tyler, Chief Executive
So I'm not sure that the simple mathematics does justice to it.

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Duncan Magrath, Chief Financial Officer
The only other metric Kevin we'd be looking at would be what's the return on our people. So you can look at it from a bottom line margin percentage in relation to revenue but clearly our constraining resource is people so what are we making for the people that

we've got. So there's a - in traditional professional services terms what's the multiplier we're getting on our people cost.

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Marcin Wojtal, Bank of America Merrill Lynch
Just one follow up question on professional services margin. I just wanted to understand if for margins to expand to 6 to 7%, are you assuming that there is stronger revenue growth in that division and that brings operating leverage benefits as margins simply expand because of higher sales or it's driven primarily by self help, cost efficiencies and also changes in the mix? So how much of that is external, how much of that is internal, that margin expansion?

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Ian Tyler, Chief Executive
Well I'll go back to what I said right from the start and again that particular target remains absolutely core to what we're doing as a group. There are two elements of that going right back to where we started with Parsons Brinckerhoff back in 2009/2010. The first element of the growth from about 4.5% to where we are now has been driven in part by efficiency, cost reduction and taking out some of the things that naturally depress margin just in the way the business operates.

The second part of it is very much around leveraging capability, in fact it's a direct follow up to Kevin's question there. It's a question of taking the value that we give to our customers and leveraging it by whatever means particularly through allying it to delivery capability. With the margins available for example in the design build and the alliancing markets are much greater than those when you're simply playing as a client side consultant.

Again George I don't know whether you want to add anything further to that?

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Duncan Magrath, Chief Financial Officer
While the microphone is coming to George I'll steal his thunder possibly. I mean I think the other thing that would be helpful in that margin progression is the bigger, more complex projects. At the moment in the US and elsewhere a constant series of smaller projects with potentially gaps in between or higher business development costs doesn't help that from a margin progression. So I think the world in which we move back to bigger projects will be helpful.

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George Pierson, CEO Professional Services
I think Ian has covered it for the most part but the earlier gains have been efficiency. There are still more to come, you're never as efficient as you need to be so there's still more work there to do so some of that will come from there. And I think the second component of that is a combination of what we call internally leveraging our intellectual capital and a lot of that is through delivery risk using our internal capabilities in a better

way and taking selective risk on delivery. And that's not just through construction but also through our professional services standpoint as well. So a combination of the two of those is really a third as you identified revenue growth, that's really the minor factor. If you grow 10% of revenue you're not going to grow 10% of margin so that's a fairly small impact on margins.

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Ian Tyler, Chief Executive
Right anything else?

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Duncan Magrath, Chief Financial Officer
Looks like they're after drinks.

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Ian Tyler, Chief Executive
I think - must be the bar's open. Right thank you very much for all your time and attention there and we're happy to hang around and pick up any other questions over the course of the next hour or so. Thank you.

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END