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Moderator:	Leo Quinn
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Introduction

Leo Quinn, Group Chief Executive

Good Morning ladies and gentlemen, this is Leo Quinn speaking and I'm joined by Duncan Magrath. We'll have a quick look at today's agenda; I'll do one slide initial observations after my two and a half weeks with the company. Duncan will then take us through some of the findings and observations on the KPMG review, then an update on our valuation and investment portfolio and then a quick trading update. And then I'll wrap up with some concluding remarks and then we'll hand over to you for Q&As.

So if we could proceed to the first slide please. Okay good morning everybody, clearly very disappointing that we're coming back with another downgrade in our profits and we'll just touch on how that's come to arise. First and foremost I would point out that I think it is actually from a company, an employee, and a customer perspective good that we draw a line under this period of uncertainty.

These reviews are hugely invasive and a great distraction for the business so I'm glad to see that we've got the findings, I welcome them, I think it's a good piece of work and I'm looking forward to moving on here.

I think the most important observations I'd make is that I'm not surprised at all by any of the root causes. If I look back over my last 25 years whether it be with Honeywell, Invensys, DeLaRue or QinetiQ the root causes are common to all of those companies and I think if you look externally you can see other companies in the construction industry who historically have experienced the same traumas.

Fundamentally, poor tendering, poor control, lack of contingency, over optimism in terms of cost to complete which I refer to as a conspiracy of optimism, poor administration of contracts. These fixes are not complicated, they will take time to put right but we know the solution.

Balfour Beatty as a company, and I'll give more on this in our March presentation, has become too large, overly complex over the last five to ten years and that's resulted really in a lack of transparency and a loss of control. In that time it's acquired too much cost, far too little cash flow generation and if you think about those two components they're easily fixed and they are an opportunity for value creation.

Obviously in the light of this announcement it will have an impact on earnings going forward and I think it's only sensible that at a time of uncertainty like this we move very quickly to balance sheet strength. And I'm going to do this by cancelling the share buy-back and we'll also be reviewing with the pension trustees the £85m that's been promised to them. In March, the normal time, we'll review the dividend policy.

And finally in terms of the investment portfolio first observations what a stunning business. Second observation is that construction and infrastructure to my mind are very strong bedfellows, a little bit like the yin and the yang of the construction business. As you know construction, as is characteristic, spins off surplus cash flow through working capital, invariably you want to find a good home for that. Some companies move into property and home buildings, we've chosen to move into infrastructure.

There's a slightly extended period in terms of the maturing of those assets but when they do mature they yield good returns and they yield strong cash flow. I think the independent valuation that we've seen today is very encouraging, up to £1.3bn, you take that on top of the fact that we've got an outstanding team and a great business, the way I look at this is what a great place to start from especially when you put that together with a balance sheet with net cash of £180m at the end of the year.

So really on that point I'll hand over to Duncan, our CFO who you all know and he'll take you through at a high level some of the findings and observations.

KPMG Review and Trading Update

Duncan Magrath, Chief Financial Officer

Thank you Leo. So, firstly turning to the KPMG Review, they reviewed 127 projects focussing on the bidding and tendering disciplines, commercial controls, contract value and cost forecasting, and project reporting. The sample was risk based and equated to projects covering 36% of UK Construction's revenue. It was a very detailed and comprehensive piece of work.

The review identified that the issues they found both in the adjustments to the September position and the subsequent deterioration in performance were principally restricted to the contracts previously highlighted in the same delivery units. These contracts account for less than 10% of UK Construction revenues.

The root causes of the poor operational performance have been summarised into three categories:

- Bidding, where bids included either insufficient cost allowances or had assumed programme timetables that were too optimistic which ultimately results in costs escalating.

- Commercial and contract management with poor contract administration and management of entitlements. For example we have had situations where we have valid contractual claim for costs but we've been unable to recover them.

- And accuracy of costs and programme forecasting where there was insufficient visibility and understanding of the operational contract performance and consequently a delay in recognising increases in the cost forecasts.

Their recommendations are focussed on four areas. More rigour needs to be introduced into the tender process with improved operational inputs and risk assessment. A review of a sample of recent bids shows some improvement but also demonstrates further standardisation is required.

Secondly we need to ensure that project managers feel not only accountable for delivering the project to the client but also for the commercial outcome and this will be facilitated by standard performance KPIs and a more robust review process by management.

Thirdly, great accuracy and timeliness of forecasting through focus on and quantification of the risks in projects supported by strong commercial management and contract administration. And fourthly, improvement and more rigorous and consistent application of group policies for commercial and financial management.

Now dealing with the financial impact. As a result of the KPMG review and recommendations the Board expects to reduce 2014 UK construction profits by a further £70m. £20m of this relates to the difference between the reported contract positions at August 2014 and KPMG's assessment as at the same date.

£50m of this is an assessment of contract forecasts and subsequent deterioration in project performance up to the end of December 2014. In addition, as recommended, the Board will assess the overall level of contract risk provisions in the UK Construction business in light of the operational issues and we'll announce the outcome of that in the full year results in March.

So moving on to the Investments business, we previously highlighted that we would update our Directors' Valuation this month. We've now valued the portfolio of projects at £1.3bn and this is supported by an independent valuation. However we should not think of our Investments business as simply a series of existing projects, it is an active and growing business which has a pipeline of future bidding opportunities and in addition has synergies with, and creates opportunities for, other Group companies, in particular a steady stream of construction work.

However even this does not encapsulate its total value for the Group. Maintaining an appropriately sized portfolio gives us a presence in infrastructure markets giving us credibility in bidding work and maintaining close links with clients.

And finally the active management of individual assets maximises returns by crystallising value at the optimal point in the cycle and provides a significant source of balance sheet strength with an attractive return.

Finally a brief comment on trading. Outside the UK there's been no net material change in trading since our last update. We've continued to see challenging conditions for our M&E

business in the Middle East although this is offset by continued strong trading in our Roads Maintenance business in the UK.

We ended the year with an unexecuted order book just below the £11.7bn we had at the end of Q3. And finally as Leo mentioned we ended the year with net cash of £180m. I'll now hand back to Leo for some concluding remarks.

Concluding remarks

Leo Quinn, Group Chief Executive

Thank you Duncan. In summary I'll just point out a couple of things, first and foremost Balfour Beatty is a company with some great strengths and a fantastic brand and I know all of our customers are strongly and hugely supportive of the company. Why, well we have fantastic engineering capability and that's something that we have to protect, nurture and cherish because that's our value added.

We have some great customer relationships and those customers have stuck by us. Getting this period of uncertainty behind us will be good because there are customers and orders out there which we want to bring in now this cloud is removed from over the head of the company.

Generally speaking I and the company are optimistic about the outlook for construction and infrastructure. And we all know that on a rising tide all ships rise. Today's valuation of our Investment business is very encouraging but as Duncan said this is a strong business, an active portfolio and a growing business.

So in terms of the group issues and the value creation opportunity look there's no surprises here in these root causes. As I said I've seen them many times before and you and yourselves have seen them as well. They are fixable but they will take time. The important thing is that all the benefits of those fixes go to our existing shareholders.

The group has become overly complex with too much cost and appalling cash flow and I think the point being is returning or reversing that trend is another value creation opportunity. The Infrastructure business combined with the UK construction to me is the yin and the yang, they both feed off one another and it's a fantastic growth opportunity for the company.

Finally as I've said to many people before, some companies start in a garage, we're starting with a balance sheet with £180m of net cash and a £1.3bn independently valued portfolio so not a bad place to start from.

On that point I'll hand over to you for questions.

Questions and Answers

Will Morgan, Goldman Sachs

Good morning, I have two questions if I may, the first one is regarding your desired level of capital on the balance sheet given the new structure of the business that you have. As you say you are in a net cash position at the moment, you don't any more have the Parsons Brinkerhoff business, or other businesses that generally probably could take a little bit more debt. So how do you think about the optimal balance sheet structure, how should we be thinking about that?

The second question just relates to again your cash position at the end of the year, which does look pretty strong. I just wondered prior to this recently announced increase in write down in the UK Construction business I think you're taking around £140m of hits so far in 2014. How much of that actually went through the cash flow statement and how much of that is still to come as a kind of delayed impact through working capital in 2015. I'm just wondering to what extent there are timing issues perhaps slashing the cash balance at the moment? Thank you.

Leo Quinn, Group Chief Executive

Okay, I'm going to sort of touch the first one and Duncan will then sort of add some facts and then second Duncan will take the second one. In terms of the optimal balance sheet structure our issue today isn't balance sheet; our issue is really lack of certainty around earnings. And while we've got that uncertainty what we want to be is prudent in terms of the balance sheet. So cancelling the buyback is absolutely the right thing to do so that we maintain balance sheet strength. On that note I'll pass over to Duncan on your second point, or the first if you will.

Duncan Magrath, Chief Financial Officer

Hi Will, in terms of your question about the write downs and the cash outflow, inevitably the numbers we've announced today I think the bulk of that will flow out next year. I mean this is effectively looking at end forecasts on contracts, a number of which go into next year and the cash outflow for that is likely to be next year.

I think in terms of the items we've talked about earlier in the year I think certainly a bigger chunk of that will have flown through already. So in terms of modelling I think you should expect the majority of what we've just announced to flow out next year and a much smaller proportion of what we previously announced next year.

Will Morgan, Goldman Sachs

If I could follow up on that, it suggests therefore the performance that you had was perhaps a little bit better than we would have thought. I mean when you look at that in the second half cash flow were there things that perhaps surprised you positively, maybe the working capital performance, something like that - is there any detail you can give around that? Thank you.

Duncan Magrath, Chief Financial Officer

Sure, I mean I think as we've talked about consistently now for some time we've expected things like the US to start turning, it hadn't turned earlier in the year, I had a degree of nervousness about whether that would turn at the end of the year it started to turn, frankly, as Leo has pointed out I think we can improve cash performance everywhere. So I think that could improve a bit further. We actually had a pretty good end of the year and that was probably a touch stronger than I expected. But there are no particular major items in relation to that.

Will Morgan, Goldman Sachs

Great, thank you.

Telephone Operator

Thank you. The next question comes from the line of Howard Seymour from Numis. Please go ahead.

Howard Seymour, Numis Securities

Thank you, a couple of questions not surprisingly on CSUK if you wouldn't mind. I think the first one just to ask on the - you mentioned the contract risk provisions, I wonder if it's possible to go into - not detail on that but what that would entail and whether you'd look on restructuring of those businesses as a key factor included in that as well, you know in the context of the regional engineering services, etc?

Leo Quinn, Group Chief Executive

This is Leo speaking, look first and foremost we sort of looked at the report last night and we're reporting out immediately. I think this is day 14 for me, a little bit too early to be talking about restructuring, but I wouldn’t take anything off the table or rule out any options. We'll do and make the right decisions as to what adds the maximum amount of value for the company.

Duncan Magrath, Chief Financial Officer

I think Howard just to add to that, I mean - the contract risk provision we're talking about there is obviously reflecting on the results of this review and particularly picking up the point about risk contingencies putting into bids and then flowing into forecast. And we obviously need to reflect on that and think whether there's anything else we should be doing around that as well.

Howard Seymour, Numis Securities

Okay, that's fine thank you. My second question, if I can, was just really - you mentioned Leo that you'd be taking over direct control of the Major Projects construction. Just a question on that because actually if I look at the issues they've predominantly been more in Regional and in Engineering Services; so can you talk us through that more because I would thought that Major Projects actually has probably been the less problem child than the other two?

Leo Quinn, Group Chief Executive

I can answer that one, I think what we're trying to achieve here is very clearly Major Projects is a very important part of the portfolio, it does perform well and what we're trying to do is take away that distraction and focus the existing management team down on the problems. So basically this is about concentrating our focus on the area that needs the most care and attention. So it's as simple as that really.

Howard Seymour, Numis Securities

Okay that makes sense.

Leo Quinn, Group Chief Executive

And just one point Howard, just very quickly, it is a £2.5bn business, it's a monster, it's very, very large and I think what we need to do is actually get that down to manageable size and a manageable scope. So we'll be looking to look at all ways of getting people focused in terms of creating transparency and holding them to account directly on a day to day basis.

Howard Seymour, Numis Securities

Great thank you very much.

Leo Quinn, Group Chief Executive

Thank you.

Telephone Operator

Thank you. The next question comes from the line of Gregor Kuglitsch, from UBS. Please go ahead.

Gregor Kuglitsch, UBS

Morning, I've got a couple of questions. The first question is around your comments on Balfour Beatty having become too large and too complex. Can you give us a sense, I know you're sort of two weeks into the job, but what kind of slimming you're thinking about to essentially reverse that. And I'm thinking about geography, perhaps even capability within selected geographies?

The second question in that context is obviously the £1.3bn Directors' Valuation that you quoted, obviously very sizable, do you think that is structurally the right size? I appreciate you don’t want to exit it and I agree with that. But wouldn't it for example be sufficient to say have £800m of balance sheet exposure in effect?

And then there are two technical questions perhaps for Duncan. Can you give us a sense on average net debt for the coming year, I appreciate last year was a bit complex with the disposal proceeds of PB, but if we can sort of have a stab at 2015 for average net debt? And then secondly where the pension deficit ended up? Thank you.

Leo Quinn, Group Chief Executive

Let me just do the Investments portfolio at £1.3bn first. First of all it's a large portfolio, I don't think it's optimised at this moment in time and I think it can actually take more scale.

However, what we've seen and proven over the last couple of years is that there is an optimal time to harvest in order to take maximum value. So this is not a static portfolio only growing, we'll actually be selling assets at the point they return optimal value and we've proven that and we'll continue to do that over the coming year.

So I think the portfolio will naturally hold a certain size. If we over sell in times of - when it's good we'll see a decline, however we've got a very active pipeline and we're preferred bidder on a number of jobs at the moment so I'm very optimistic about the outlook for that business.

That said in terms of my observations about the company, too large, I mean clearly I said I'd say more in March about that, but I think if you look back over the history to have grown from £2bn up to £10bn at the rate it did and the number of acquisitions, that's quite eye watering. And I think in terms of how we rationalise that portfolio, far too early to say, because it all effectively does bring value to our customers and separates out Balfour Beatty from its competition. But it has ultimately to earn its way and what we've got to make sure is we've got a strategy longer term which actually delivers a sustainable cash flow and value to shareholders and customers.

Gregor Kuglitsch, UBS

Thank you.

Duncan Magrath, Chief Financial Officer

Gregor, in terms of average net debt I think for the coming year I think there's a number of things that you ought to think about, I mean as Leo referred to at the start we're cancelling the share buyback, that's one thing for you to think about. We're also reviewing the dividend policy at March. There's a discussion with the pension funds to be had. Clearly Leo as he said is going to drive improved cash performance across the business and then we've got the impact of the write downs. And I think those are some of the moving parts. And I think in terms of sort of formal guidance I think you're going to have to wait until March. We need to work through some of those things as well. But I think those are the moving parts compared with what you looked at before.

In terms of the pension deficit we haven't completed our year end yet, my expectation is to see the combined pension deficit across both the Balfour Beatty pension fund and the others to be somewhere below £200m.

Gregor Kuglitsch, UBS

Could I maybe push you on the average debt, where was it in Q4 I guess since the Parsons cash proceeds, so we have a starting point, a pro forma starting point?

Duncan Magrath, Chief Financial Officer

I'm not sure I've got a pro forma because I know what the actual number is, but in terms of the receipts of the proceeds is a very significant factor in Q4, so I think we just need to wait till March.

Gregor Kuglitsch, UBS

Okay, thank you.

Telephone Operator

Thank you. The next question comes from the line of Mark Howson from Canaccord. Please go ahead.

Mark Howson, Canaccord

Good morning gentlemen. Obviously things that you haven't mentioned today are - I mean cost savings you mentioned that there may be some scope, but you obviously haven't given any feel for what the size of those will be. And yet during the time of the Carillion bid I mean the previous management, when they looked at Carillion's £170m of cost savings they came up with indicative views that it might not have been £170m but it could be very significant, it may be something beginning around the £100m mark. They've nothing in here at all on that. Can you give us a feel of what's happened with all of that is the first question?

Secondly can you give us a feel for how much of the write downs would be coming in cash in '15, you know, is it 100%, or 50%, or 60%, or you just don't know at this point?

Duncan Magrath, Chief Financial Officer

I'll deal with the second point, I mean just picking up on what I said earlier, I think the majority - I mean a little bit of this may have flown through in '14, but the bulk of it will be in '15. It's all largely to do with cost and therefore it will be ultimately a cash flow.

Leo Quinn, Group Chief Executive

Mark on the first one, first and foremost – look, very, very early to say what the level of cost take out would be. But I suppose it would be worth saying that I think at some time Carillion in the past had put £175m on the table, however you look at £175m, you know half would go to Carillion shareholders and half would go to Balfour Beatty's. I think you could look at the fact that if we make savings 100% of that goes to Balfour Beatty shareholders and I can't imagine it would be anything less than that number that they put on the table, in terms of the benefit to our shareholders.

Mark Howson, Canaccord

Right okay. And just finally from me, I've seen something on the screen that appears to have been given to the press that you're ruling out talking to Carillion and you're expecting more offers for the PFI portfolio. Can you just elaborate on that because obviously that's not been on this call - it's not on the statement first thing?

Leo Quinn, Group Chief Executive

No it hasn't sort of come from the mouths of babes either. I think first of all we should be cynical of what we read in the press. Look, my job as the CEO is to maximise shareholder value, you know, we've had lots of people talk to us about the Investment portfolio. The Board will decide what the optimal value for the Group is and you know we'll carry on running the business and review people as they approach us. So open minded to everything really. But my number one priority is to run this business and to maximise the value of it today.

Mark Howson, Canaccord

Thank you.

Telephone Operator

Thank you. Our next question comes from the line of William Shirley from Liberum. Please go ahead.

William Shirley, Liberum

Good morning, just on the overseas businesses, there, clearly the focus on the KPMG Review is on the UK Construction business but the sort of trade press report about potential challenges in the overseas JVs. Have you done any work to give us confidence that there aren't more challenges in those businesses and that those don't also require a review?

Leo Quinn, Group Chief Executive

Look as the incoming CEO Will I think the shareholders would expect me to cast my eye over the whole portfolio and that would be a prudent thing to do. I sort of haven't got around to that just yet. But maybe Duncan might have a quick comment to give you some comfort?

Duncan Magrath, Chief Financial Officer

I think the - I mean even within the UK we should not forget the fact that some of these issues are isolated to a small part within the UK business, so there isn't a systemic issue which would therefore indicate that it would be necessarily outside the UK. But as Leo said I'm sure he's going to look across the Group in due course.

William Shirley, Liberum

Okay thank you.

Telephone Operator

Thank you. The next question comes from the line of Stephen Rawlinson from Whitman Howard. Please go ahead.

Stephen Rawlinson, Whitman Howard

Hi chaps, just to ask a technical question around the pension issue because quite obviously the pension trustees raised no objections to the sale of Parsons expecting that £85m would come their way. Clearly - Duncan you talked about a discussion with the pension funds can you just give us a clue as to what the thought process is from the trustees at the minute and what your expectation is from them?

And secondly and more of a strategic question really you mentioned the issue of recycling cash from the construction projects back into the PPP PFI portfolio as being your preferred method. Everybody we speak to in the construction sector these days says that upfront cash is nowhere near what it was 25 years ago and so not even what it was 10 years ago. Are you experiencing something different from other contractors in regard to upfront cash from projects?

Duncan Magrath, Chief Financial Officer

Okay two issues, I mean firstly around the pension, I mean we haven't, you know, a conversation has started but in the very, very early days in terms of the trustees and it's just worth reminding ourselves that the pension contribution was driven off a return of capital to shareholders and we think in the context of cancelling the return of capital to shareholders it's only right we start a conversation, so that is early days and that is the background to that conversation.

In terms of recycling the portfolio you're right there are different styles of contracts with different upfront payments, you know target cost type contracts have less upfront. But I think there is still sufficient work that I see across the industry that generates negative working capital which throws off cash that can be invested into Investments portfolio.

I think you'll be aware from other people there are other structural pressures probably in the UK construction market and also political issues, but I still think there will be money to invest into Investments portfolio.

Frankly if there wasn't a huge amount of money from working capital as Leo has pointed out at the start we still have a very strong balance sheet, we start in a net cash position and I think if anybody is able to invest into their Investments portfolio it would be us.

Stephen Rawlinson, Whitman Howard

Just one further question, is there a level of bonding that exists within the whole business at the moment and give us a clue on that one please?

Duncan Magrath, Chief Financial Officer

Yes, I mean there's a very, I actually don't have the figures in front of me, I mean there's a large surety bonding programme in the US and there's also bonding in the UK. I mean I actually don't have the figures in front of me, but they are significant bonding programmes.

Stephen Rawlinson, Whitman Howard

I think a figure of about 4 billion was mentioned last time, is it still at that number Duncan or has it changed?

Duncan Magrath, Chief Financial Officer

In terms of utilisation it's probably gone down a bit, so things like in the US the shift to more private sector work means there's actually a reduction in the level of sort of mix of activity. So in the US it's probably down a bit, in the UK it's probably broadly the same.

Stephen Rawlinson, Whitman Howard

And just finally on the UK piece, I mean it's not clear from the way in which you've written it where you're up to in terms of, if you like, reordering the way in which things are done. I mean there's a statement of intention about how you will operate in future in terms of risk control, risk management, but no indication of where you are to date in that process. Do we assume that actually that has now started, it's three months in, it's six months in, or is it still lots to do, which is it?

Duncan Magrath, Chief Financial Officer

Well I think there has been a process ongoing for some time, you know going back to 2013 and there have been, as we've talked about before, a number of changes in management and there's been also changes in our attitude towards risk and for instance bidding in London in the Engineering Services businesses, margin expectations, etc. But I think you know that process needs to be tightened further as we mentioned earlier. So I think it's a continuation of what we've done before and obviously Leo has focused on the tendering process elsewhere and, you know already, some ideas in terms of how we may improve that process.

Stephen Rawlinson, Whitman Howard

Just a final one from me if you don’t mind and related just to that one, has it led you to turn down more projects than historically was the case? You know I'm trying to look for metrics here to point to the fact that this process is now actually having an impact?

Duncan Magrath, Chief Financial Officer

I think in terms of metrics we were looking at some data yesterday that sort of shows that bid margins have improved year on year, although frankly our issue hasn't necessarily been the bid margin itself it's been the cost and risk contingency within it. There are definitely examples of having declines to bid work and there's probably more of those that I have seen. And those are probably the two areas. I don't think I can just point to a metric to you that would identify that.

Leo Quinn, Group Chief Executive

I think just to build on that, in some cases I think you know we've probably been a bit too timid and too shy and I think we need to redouble our efforts in this area because look at the end of the day one point of margin in UK Construction is £30m on the bottom line. So we need to sort of go at this a lot harder than we've been going at it, even though we feel that we've made progress. I won't be convinced until I actually see it coming through in cash flow and profit and these things don't turn quickly when it's this size of business.

Stephen Rawlinson, Whitman Howard

Thanks chaps.

Telephone Operator

Ladies and gentlemen please be reminded if you would like to ask a question please press *1 on your telephone keypad. The next question comes from the line of Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack, Cenkos

Morning to you both, well one question I think for Leo and two for Duncan if that's all right. When you look at the recommendations that KPMG have made and the actions that are already underway within the business, are there any significant areas which you think you need to prioritise between being suggested, which I accept frankly is nothing terribly surprising there, and what's actually being done in the business?

Leo Quinn, Group Chief Executive

I can tell you what the number one is for me, you know when all is said and done, I mean it's just the level of contingency that goes into the jobs and this conspiracy of optimism in that we feel we can do so much better than we really can as the outturn shows. So upping the risk contingency is to me the number one priority.

Kevin Cammack, Cenkos

Okay so that's pretty much a potential and control thing, it's not a cultural thing?

Leo Quinn, Group Chief Executive

Well it does go to culture, let's be quite frank, you know at the end of the day if people are being driven and motivated by the wrong things they'll exhibit the wrong behaviours. You know my value system is very clear and over the course of the next five days I'm meeting all of the top UK and all of the top US management and it's a very clear discussion about what I hold to be true.

Kevin Cammack, Cenkos

Thank you. And then just a couple for Duncan that relate - regarding the Investments portfolio. Apart from obviously the SPV specific debt and the non-recourse are there any borrowings of the Group that are secured against the value of the PFI portfolio?

Duncan Magrath, Chief Financial Officer

No.

Kevin Cammack, Cenkos

Okay thank you. And secondly on the specifics of the uplift, looking at the US I'm sort of assuming that there's a relatively small narrow basis for a sort of true mark to market discount rate to the extent there is in the UK. So could you just very briefly talk me through where the scale of that uplift in the States comes from?

Duncan Magrath, Chief Financial Officer

Sure, there's actually two things going on in the States, the discount rate - actually you'll see we've reduced slightly and actually you're right there isn't a great population of discount rates that you can look at. We've been using a rate, when we went through the independent valuation process they sort of recommended using a slightly lower rate than we had been using, so that actually is a slight negative.

In terms of the population of that, we can look at there are some - you've got at one end you've some companies that are similar to REITs you've got at the other end companies that are more like pension funds and they have different discount rates. But you're right there isn't nowhere near like the liquid market that we have in the UK and consequently the discount rates we're using over there are higher.

In terms of where the uplift really comes from it's principally around looking at the level of overhead costs, and it's probably worth a bit of background. In the UK the overhead costs have never been, I mean, only the direct costs have been charged against the portfolio. In the US we have charged all of our overhead costs against the portfolio, and that was - whilst all we had was a portfolio of military housing that was conservative but probably appropriate. I think now we have Canadian assets, we have non-military housing assets and student accommodation etc. There's a growing pipeline of other activity and therefore some of that overhead is genuinely allocateable against the pipeline so that has also driven it. So it's a changing cost and also allocating some of the overheads against the pipeline which is then netted off within that sort of very high level estimate that we've given that we think of the value of the pipeline on top of the portfolio.

Kevin Cammack, Cenkos

Can I just ask who did the independent valuation?

Duncan Magrath, Chief Financial Officer

Yeah, KPMG.

Kevin Cammack, Cenkos

In both US and the UK?

Duncan Magrath, Chief Financial Officer

Yeah.

Kevin Cammack, Cenkos

Yeah okay, thank you.

Telephone Operator

Thank you. The next question comes from the line of Alastair Stewart from Westhouse Securities. Please go ahead.

Alastair Stewart, Westhouse Securities

Good morning all. I've just got one question really. Do you rule out at this point a possible future equity issue? I know that you've ended the year with £118m net cash, but a bit of uncertainty on what's the average net debt or net cash run rate. I saw your various moving parts but couple of observations, pure Construction businesses separated from their PFI positions traditionally run with fairly hefty net cash positions, and in the past management at Balfour Beatty has stressed the importance of having a certain level of net cash to secure US bonding. Can I have your thoughts on that please?

Duncan Magrath, Chief Financial Officer

If I start with the second one and perhaps hand over to Leo for the first one. I mean in terms of I think you referred to the phrase pure construction companies and pure construction companies don't have the anchor of a £1.3bn semi liquid investments portfolio. And you know it sort of - we touch on it in the statement, but the reality is from my perspective having that anchor earning a yield as opposed to running with lots of cash earning very little interest at the moment is precisely why, to use Leo's phrase, the yin and the yang, that's one of the structural reasons why these work together.

Alastair Stewart, Westhouse Securities

But in terms of ruling out an equity issue do you rule it out at this point in time?

Leo Quinn, Group Chief Executive

Well we have no plans at this time for an equity issue. Simple as that.

Alastair Stewart, Westhouse Securities

Fair enough, thank you.

Telephone Operator

The next question comes from the line of Michael Brown from Henderson. Please go ahead.

Michael Brown, Henderson Global Investors

Hi chaps. Carillion have a well-documented factoring offering for its suppliers and I just wondered is that something that you guys would consider, having a similar offering?

Duncan Magrath, Chief Financial Officer

We actually do have an offering although there's very little in the way of take up on it. It's you know like £2m or £3m. It's something that the - quite why the take up isn't huge is I think possibly reflective of the fact that we generally pay people reasonably promptly.

Michael Brown, Henderson Global Investors

Okay.

Leo Quinn, Group Chief Executive

Any more questions?

Telephone Operator

Yes, the next question comes from the line of Colette Ord from Numis Securities. Please go ahead.

Colette Ord, Numis Securities

Hi, good morning. Just one very quick question from me on the UK PPP valuation uplift, the majority of which was from projected performance improvements. Could you just give a bit of colour on what type of assumptions are included within that please?

Duncan Magrath, Chief Financial Officer

Sure. It's principally around the costs that sit within the SPV and principally around things like the costs of running and also things like lifecycle costs where again in discussions we've concluded that they're probably being overly conservative.

Colette Ord, Numis Securities

Thank you. Can you just confirm on your financial close do you typically take the or leave the lifecycle costs with equity? Do you have a general view on where that sits or is it project specific?

Duncan Magrath, Chief Financial Officer

It's project specific and it changes definitely due to the nature of the project. Sometimes it sits with the SPV, quite often it doesn't but it does depend.

Colette Ord, Numis Securities

Thank you.

Telephone Operator

Thank you. The next question comes from the line of John Mullane from Investec. Please go ahead.

John Mullane, Investec

Good morning gents. I just have one or two questions on behalf of my colleague Andrew Gibb. Just in relation to the overseas operation, is there any timeframe for a decision in terms of if you were to extend your view to the overseas operation there? And then secondly are you currently in discussions with your lenders in respect of refinancing?

Leo Quinn, Group Chief Executive

Okay. If I was to lay out my timetable I think you know come our March prelims I would probably be looking to update people on my observations with a little bit more insight than this morning. I think August, which we'd like to move back to September because of people's holidays, probably a more in depth operational review with some matrices. So I think that's the timeframe I'd be thinking and I think that would be sensible in light of the size and the complexity of the Group.

Duncan Magrath, Chief Financial Officer

In terms of the facilities, our facilities expire in November '16. I think as I said before we would anticipate refinancing them during the course of 2015.

John Mullane, Investec

And just in terms of the early indications, is everyone supportive there?

Duncan Magrath, Chief Financial Officer

We haven't started those discussions. As I said it's something that I would tackle during 2015, or my successor.

John Mullane, Investec

Okay. Thank you.

Leo Quinn, Group Chief Executive

Is that the end of the questions or …?

Telephone Operator

Well we have a final question from the line of Stephen Rawlinson from Whitman Howard.

Leo Quinn, Group Chief Executive

Come on Stephen.

Stephen Rawlinson, Whitman Howard

Thanks gents. If you could allow me just a couple, I hope they're very quick ones. Firstly on the PPP/PFI valuation, I think the blended rate the last time you did the valuation came out at about 8.1% at the discount rate. I wonder if you could give us a clue as to what the new level is and the new valuation please.

And secondly with regard to the cost savings that you actually expect to put through the PPP/PFI portfolio, will some of that actually imply that there is less revenue for Balfour Beatty's FM and other types of businesses that provide services into those PPP/PFI projects?

Duncan Magrath, Chief Financial Officer

Well firstly the blended rate is 7.8% on the UK portfolio compared with that 8.1% so it's come down a little. In terms of the SPV costs, it depends frankly on the type of asset. So road maintenance possibly, although none of that's obviously in our order book until it's actually contracted. But yes, at some point that might have an impact. If it was something to do with a hospital for instance, you know we've obviously not got the FM business any longer. I don't see that as a significant - I don't see that as a huge impact but anyway, as I said, none of that will be in our order book anyway.

Stephen Rawlinson, Whitman Howard

So there's some reduction in revenue but it's not material is what I take from that?

Duncan Magrath, Chief Financial Officer

And could be many years out, correct.

Stephen Rawlinson, Whitman Howard

Right, okay.

Telephone Operator

Thank you. And we now have another question from the line of Gregor Kuglitsch from UBS. Please go ahead.

Gregor Kuglitsch, UBS

Hi, I just wanted to clarify one thing. Leo I think in your introductory statement you said you had cancelled the dividend. I think - not sure whether you meant to say that you cancelled the buyback or cancelled the dividend or both? I just want to understand.

Leo Quinn, Group Chief Executive

Apologies. It was cancel the buyback and we'll review the dividend in a normal timeframe. So I'd stick to the written word. Probably got carried away with that one.

Gregor Kuglitsch, UBS

Okay, cheers.

Leo Quinn, Group Chief Executive

Thanks for the clarification.

Telephone Operator

Thank you. We have also another question from the line of Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack, Cenkos

Yes, sorry just to come back on one but I'm just sort of thinking how you explain to shareholders, and I totally understand in a sense they're different things, but there's certain irony here that there's an uplift in valuation being applied to the investment portfolio on the basis of past conservatism. And yet there's a significant uplift in the loss provision being made in UK Construction because of past optimism. And I know they're slightly - you know I know they're different things etc. but there is a certain irony to that isn't there?

Leo Quinn, Group Chief Executive

The answer is yes. I mean they are fundamentally different businesses in terms of the business cycle and how they're structured. And you know when you're delivering projects as I say there is this conspiracy of optimism in that we - or projects tend to actually hope for the best and not necessarily plan for the worst.

Duncan Magrath, Chief Financial Officer

I think it's worth pointing out Kevin obviously the - you know the inherent conservatism within the Investments has been proved time and time again over the last few years when we've been selling the assets, and unfortunately an inherent optimism in the Construction business has been proved time and time again with our profit warnings. So yes, there is an irony.

Kevin Cammack, Cenkos

I mean I suppose the basic question is how much different are the set of rules that have been applied in the - the management within the Investment side, have they always had a very different set of rules applied to them? Because at the end of the day they're also assessing and bidding and having to at some stage win that work competitively, aren't they?

Duncan Magrath, Chief Financial Officer

Yeah, and perhaps a slightly better analogy might be the fact - I mean the investments, you're right they're bidding large, complex projects a lot, but they're tens of projects. And the analogy may be better with our major projects business where we haven't seen the same issues we've had elsewhere. So you know I think where we have a smaller number of large projects we've done pretty well.

Kevin Cammack, Cenkos

All right, thanks gents.

Leo Quinn, Group Chief Executive

Thank you.

Telephone Operator

Thank you. We have no further questions so I will hand back to your host for any final remarks.

Leo Quinn, Group Chief Executive

Great. Look thanks everybody for taking the time. Apologies for another downgrade - to sort of excite your week. A couple of really important points here. First and foremost we are talking about companies - this company that has some fantastic strengths and a great legacy to it, both in terms of engineering capability, customer relationships. Those are not to be discounted. In terms of our outlook around construction and infrastructure investment in the UK and America we're optimistic that it's an upward trend.

In terms of value, the KPMG news is obviously unwelcome, but there are no surprises in the root causes. It is eminently fixable. It will take time. And the most important thing is that all of the benefits that accrue to that will go to our existing shareholders. The Group has become overly large over time, or had become, and is carrying too much cost and needs to improve the cash generation. Again that is a value opportunity within the portfolio, and that's irrespective of how our projects business performs and delivers.

In terms of infrastructure combined with our UK Construction business, there is the yin and the yang of the UK Construction in that. It's an actively managed portfolio so that we are at the point of maturity looking to sell assets at the optimum point in value. And it does feed the Construction business, and those projects invariably in the average give a better return. It's outstandingly well managed and a fantastic asset to have. You know and as I said, if you're going to start somewhere, starting with £180m net cash on the balance sheet and a £1.3bn independently valued investment portfolio is not a bad place to start. We have our challenges but we'll get started straight away now that the uncertainty has been removed around the KPMG work.

Thank you all very much for your time and look forward to keeping you updated regularly on the progress we're making.

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